

GAZIT-GLOBE LTD.

Directors' Report to Shareholders For the periods ended September 30, 2006

The Board of Directors of Gazit-Globe Ltd. (hereinafter – “the Company”) is pleased to present the financial statements of the Company and its consolidated subsidiaries for the periods ended September 30, 2006:

1. A. General

The Company – directly and through subsidiaries and an affiliate – is engaged in the acquisition, development, and management of income-producing properties in North America, Europe and Israel, and focuses mainly on supermarket-anchored shopping centers. In addition, the Company is active in the senior housing communities and the medical office buildings sectors in the U.S.A., and also continues to seek and realize opportunities in its business and/or in similar asset class, both in regions where it operates and also in other regions.

B. Properties of the Company and its Subsidiaries (hereinafter – “the Group”)

As of the signing date of the financial statements, the Group owns and manages, by itself and through an affiliate, 445 properties, as follows:

- 409 shopping centers and stores
- 22 shopping centers under development
- 10 senior housing communities (with approx. 1,025 units)
- 2 senior housing communities under development
- 1 medical office building with a multi-storey parking garage
- 1 office building in Tel-Aviv

The above mentioned properties have a gross leasable area (“G.L.A.”) of approximately 4.3 million square meters. These properties are recorded in the Company’s books and in the affiliate’s books at a value of NIS 29.5 billion and generate an annual rental revenue of NIS 3.1 billion. (Annual rental revenue data is based on the gross annual rent from the properties currently owned at the exchange rate on the signing date of the financial statements.)

In addition, the Group has a 20% interest in one unconsolidated joint venture that owns and manages 29 shopping centers in Texas, U.S.A., with a G.L.A. of approximately 260 thousand square meters.

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – “EQY”), a public company listed on the New York Stock Exchange (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the signing date of the financial statements, the Company owns, directly and indirectly (including through the subsidiary, First Capital Realty Inc., as described below), 41.4% of EQY. EQY’s properties are located primarily in growing metropolitan areas in the southeastern United States (mainly in Florida and Georgia) and in the Boston, Massachusetts metropolitan area. EQY owns and has interests in 169 operating shopping centers, with a G.L.A. of 1.7 million square meters and 4 shopping centers under development. It also has a 20% interest in an unconsolidated joint venture that owns and manages 29 shopping centers in Texas, U.S.A.

The Company is also active in the United States through Royal Senior Care (hereinafter – “RSC”) and ProMed Properties Inc. (hereinafter – “ProMed”). RSC, in which the Company holds a 50% interest, is active in the senior housing communities sector in the southeastern United States. RSC owns 10 senior housing communities, encompassing approximately 1,025 units, as well as 2 senior housing communities under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings sector. ProMed owns a medical office building, with a G.L.A. of 24 thousand square meters, and an adjacent multi-storey parking garage.

In Canada, the Company operates through First Capital Realty Inc. (“FCR”), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the signing date of the financial statements, the Company holds 53% of FCR. FCR’s properties are located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 147 properties in Canada, with a G.L.A. of approximately 1.6 million square meters, and 6 shopping centers under development. In addition, FCR owns 13.3 million shares of EQY.

In Israel, the Company owns 85% of the share capital of Gazit-Globe Israel (Development) Ltd. (hereinafter – “Gazit Development”), which is an owner, developer and operator of shopping centers in Israel and is assessing investment opportunities in other countries and regions. Gazit Development owns 6 shopping centers, with a G.L.A. of approximately 60.7 thousand square meters, 7 plots of land for future development of shopping centers and also a shopping center under development. In addition, the Company owns an office building in Tel-Aviv.

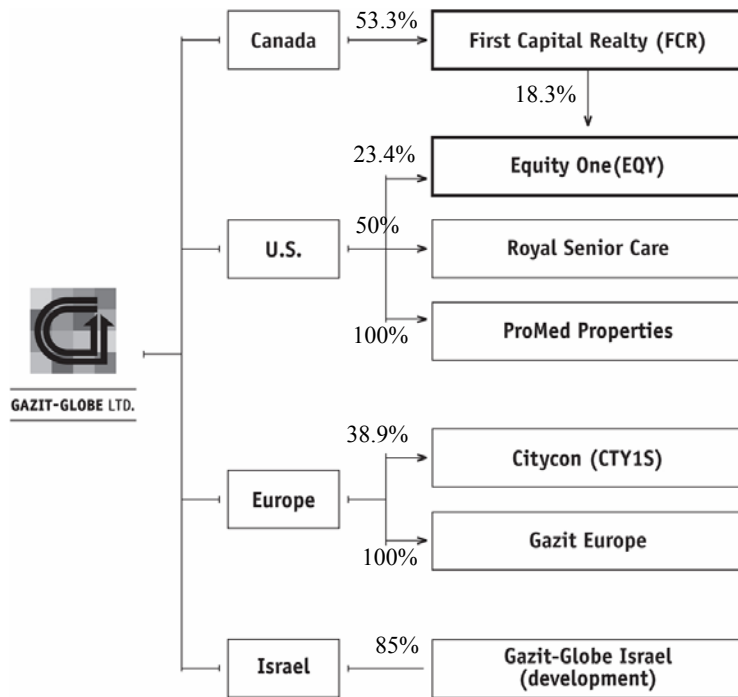
In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – Citycon), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (HEX). As of the signing date of the financial statements, the Company owns approximately 39% of Citycon’s share capital. Citycon is active in northern Europe (as of the signing date of the financial statements, in Finland, Sweden, Estonia and Latvia) and owns 33 shopping centers and 52 retail properties, which are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.8 million square meters. Additional European operations are conducted through Gazit Europe, a wholly (100%) owned subsidiary, which is engaged in the European shopping centers sector (in Germany, as of the signing date of the financial statements) and owns two shopping centers in Germany, with a G.L.A. of approximately 25 thousand square meters, a shopping center under development and land for future development.

Additionally, as of the signing date of the financial statements, the Company holds a 9.7% interest in the share capital of a U.S. real estate company (“The Mills Corporation”), which is listed on the NYSE (NYSE: MLS). MLS is engaged in the regional shopping and entertainment centers sector in North America. The Company has made a non-binding offer to MLS to make a further investment therein, as described in section 2T below.

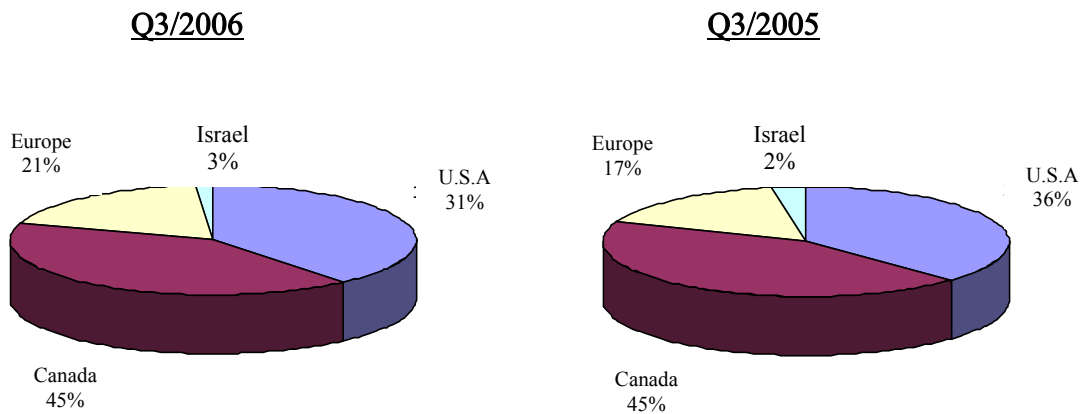
Other publicly accessible data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets and liabilities, and other information, can be found on the Group’s Internet website and the Internet websites of the Group’s companies:

www.gazit-globe.com
www.equityone.net
www.firstcapitalrealty.ca
www.citycon.fi

C. The Company's Major Operational Units are Shown Below (Ownership Percentages are as of the Signing Date of the Financial Statements):



D. Breakdown of Net Operating Income ("NOI.")⁽¹⁾, According to the Company's Operating Regions:



⁽¹⁾ The Company's share (by proportionate consolidation) - see section E2 below.

E. The Company's Assets

1. The following table presents a summary of the Company's assets as of September 30, 2006, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions)	Market value as of September 30, 2006 (NIS in millions)
EQY ⁽¹⁾	Shares (NYSE)	17.1	23.4	1,005	1,764
FCR	Shares (TSX)	39.6	53.1	2,098	3,945
FCR	Convertible debentures (TSX)	12.1	12.1	45	47
Citycon	Shares (HEX)	64.9	39.0	1,119	1,468
Citycon	Convertible debentures	37	33.6	203	203
RSC	Income-producing property	-	-	219	-
Gazit Europe	Income-producing property	-	-	338	-
ProMed	Income-producing property	-	-	371	-
Properties in Israel	Income-producing property	-	-	1,055	-
Other assets, net ⁽²⁾		-	-	57	-
Total		-	-	6,510	-

Below are the Company's monetary balances (including balances of subsidiaries that are not public companies) as of September 30, 2006 (NIS in millions):

Total monetary assets	<u>815</u>
Monetary liabilities, other than debentures and debts to financial institutions	152
Debentures and debts to financial institutions	<u>4,516</u>
Total monetary liabilities *	<u>4,668</u>
Monetary liabilities, net	<u><u>3,853</u></u>

⁽¹⁾ Represents only the Company's direct interest in EQY (in addition, FCR owns 13.3 million shares of

⁽²⁾ Represents mainly the book-value of other assets and the provision for deferred taxes.

* Below are the annual repayments of the debentures and debts to other financial institutions (NIS in millions):

<u>Year</u>	<u>Total</u>	<u>%</u>
2006	134	3
2007	264	6
2008	213	5
2009	227	5
2010	384	9
2011	372	8
2012	358	8
2013	337	8
2014	603	13
2015	282	6
2016	260	6
2017	203	4
2018	416	9
2019	102	2
2020	103	2
2021	119	3
2022 and after	139	3
Total	<u>4,516</u>	<u>100</u>

2. Additional information is presented below concerning the Company's share in the income-producing properties owned by the Group as of September 30, 2006, based on capitalized net operating income ("NOI.")⁽¹⁾ methodology. The presentation of this information is intended to provide additional information, based on methodology that is generally accepted in the regions in which the Company operates, which might serve as an additional method in analyzing the value of the Company's properties on the basis of the Company's financial results for the reporting period. It is emphasized that this information does not represent the Company's present or future value of its assets.

⁽¹⁾ Property rental revenue, net of property operating expenses.

The sensitivity analyses shown in the table below describes the implied value of the income-producing properties⁽¹⁾ owned by the Group according to the range of different cap rates generally accepted in the regions in which the Group operates, as of the date of publishing the financial statements. It should be noted that this presentation does not take into account existing building rights potential in respect of the Company's properties.

In calculating the NOI., the following assumptions were made:

- a. The annual NOI. for each of the Group companies based on its quarterly results for the third quarter of 2006.
- b. The Company's proportionate share in the NOI. of the Group companies, as follows:

	For the 3 months ended September 30, 2006	For the year ended December 31, 2005
	NIS in millions	
NOI. for the period	412	1,478
Less – minority interests' share in NOI.	(213)	(858)
Add – Company's share in Citycon's NOI.	47	127
NOI. for the period	<u>246</u>	<u>747</u>
NOI. for the year	<u>⁽²⁾982</u>	<u>747</u>

Cap Rate:	<u>5.75%</u>	<u>6.00%</u>	<u>6.25%</u>
Value of proportionately consolidated income-producing property (NIS in millions)	<u>17,083</u>	<u>16,371</u>	<u>15,716</u>

⁽¹⁾ NOI. divided by the cap rate.

⁽²⁾ The cap rate for the third quarter of 2006 multiplied by 4.

New properties and properties under development, which have not yet come on line and which are presented at their carrying values in the Company's books (according to the proportionate consolidation method) as of September 30, 2006, amounted to NIS 933 million.

The Group's liabilities, net of monetary assets (by the proportionate consolidation method) as of September 30, 2006, amounted to NIS 10,434 million.

3. As of September 30, 2006, the Company's issued share capital comprises 114.9 million shares (excluding treasury stock held by the Company).

F. Highlights - Third Quarter 2006

- The Group's investments totalled NIS 1.4 billion, compared to NIS 0.9 billion in the same quarter last year. In addition, Citycon invested NIS 1.5 billion in acquiring and developing properties, compared to NIS 0.7 billion in the same quarter last year.
- Property rental revenue totalled NIS 618 million, an increase of 10% compared to the same quarter last year. The increase was due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the development properties coming on-line and also the increase in the average rent per square meter received on the Group's properties.
- NOI.⁽¹⁾ totalled NIS 412 million, compared to NIS 377 million in the same quarter last year, an increase of 9%.
- Gross profit totalled NIS 298 million, compared to NIS 288 million for the same quarter last year, an increase of 4%.
- Cash inflows from operating activities totalled NIS 167 million, compared to NIS 183 million for the same quarter last year, a decrease of 9%, which is due to timing differences on payments to third parties. Neutralizing the effect of these timing differences, cash inflows from operating activities increased by 24%, compared to the same quarter last year.
- FFO.⁽²⁾ totalled NIS 72.1 million, NIS 0.66 per share, compared to NIS 46.5 million, NIS 0.52 per share, for the same quarter last year, an increase of 55%.
- Net income totalled NIS 50.1 million, NIS 0.39 per share, compared to NIS 49.5 million, which included higher than usual capital gains, NIS 0.53 per share, in the same quarter last year.

⁽¹⁾ NOI. – Property rental revenue, net of property operating expenses.

⁽²⁾ See section 3C.

- The Company (by means of a rights issue to shareholders) and FCR raised NIS 287 million in share capital from the public, compared to NIS 249 million in the same quarter last year. As a result of the offerings made by FCR and, in the same quarter last year, also as a result of the capital raised by EQY and the conversion of convertible debentures into shares by FCR, the Company recorded net gains of NIS 1.8 million, compared to net gains of NIS 31 million in the same quarter last year.
- Capital surpluses⁽¹⁾ (included within the line item “shareholders’ equity”, as described above) fell by NIS 101 million (NIS 0.93 per share), compared to a rise of NIS 73 million (NIS 0.78 per share) in the same quarter last year. The reduction in the capital surpluses is due to the weakening of the U.S. dollar, the Canadian dollar and the Euro against the Shekel in the third quarter of 2006, compared to the strengthening of the U.S. dollar and the Canadian dollar in the same quarter last year.
- Debt to market capitalization (derived from the market value of the Group’s holdings) was 51.5% as of September 30, 2006, compared to 53.6% as of September 30, 2005. As of December 31, 2005, this ratio was 52.2%.

G. Highlights - First Nine Months of 2006 (hereinafter – “the reporting period”)

- The Group’s investments totalled NIS 4.3 billion, compared to NIS 2.3 billion in the same period last year. In addition, Citycon invested NIS 2.1 billion in acquiring and developing properties, compared to NIS 0.7 billion in the same period last year.
- Property rental revenue totalled NIS 1.9 billion, an increase of 20% compared to the same period last year. The increase was due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the development properties coming on-line and also the increase in the average rent per square meter received on the Group’s properties.
- NOI. totalled NIS 1,259 million, compared to NIS 1,078 million in the same period last year, an increase of 17%.
- Gross profit totalled NIS 919 million, compared to NIS 820 million for the same period last year, an increase of 12%.
- Cash inflows from operating activities totalled NIS 505 million, compared to NIS 509 million for the same period last year, a decrease of 1%, which is due to timing differences on payments to third parties. Neutralizing the effect of these timing differences, cash inflows from operating activities increased by 23% compared to the same period last year.
- FFO.⁽²⁾ totalled NIS 205.7 million, NIS 1.95 per share, compared to NIS 157.3 million, NIS 1.80 per share, for the same period last year, an increase of 31%.

⁽¹⁾ Capital surpluses deriving from translation of the financial statements of overseas subsidiaries operating independently.

⁽²⁾ See section 3C.

- Net income, which included higher than usual capital gains and a non-recurring write-down, totalled NIS 216.8 million, NIS 1.97 per share, compared to net income (after neutralizing the non-recurring effect of Israel Accounting Standard No. 19) of NIS 111.9 million, NIS 1.24 per share, in the same period last year.
- The Company, EQY and FCR raised NIS 993 million, net, in share capital from the public, compared to NIS 476 million in the same period last year. As a result of the offerings made by EQY and FCR and, in the same period last year, also as a result of the conversion of convertible debentures into shares by FCR, the Company recorded net gains of NIS 30.5 million in the reporting period, compared to net gains of NIS 69.6 million in the same period last year.
- As of September 30, 2006, the Company's long-term investment in MLS (see section 2T below) totalled NIS 321 million. Subsequent to balance sheet date, the Company increased its investment in MLS by a further NIS 194 million, bringing its aggregate holding to 9.7% of MLS' share capital.

H. Change in Reported Income Due to Changes in Accounting Standards

Israel Accounting Standard No. 19 – “Taxes on Income”, published by the Israel Accounting Standards Board (hereinafter – “the Standard”), was approved in July 2004. The Standard prescribes criteria for the recognition, measurement, presentation and disclosure for taxes on income in financial statements.

In the first quarter of 2005, the Company included in its statement of income (by means of a non-recurring charge) an expense of NIS 56.5 million in respect of the cumulative effect at the beginning of the year of adopting this Standard. Other than as stated above, the Company does not expect the application of the new Standard to have any further effect on its operating results, its financial position and/or its cash flows.

I. Adoption of International Financial Reporting Standards (IFRS)

As described in note 2C to the financial statements, the Company is in the process of adopting IFRS. Below is a qualitative disclosure of the principal differences, which might have an effect on the Company's financial statements, upon the transition from the generally accepted accounting principles ("GAAP") in Israel - to which the Company is currently subject - and International GAAP,:

1. Under current Israeli GAAP (prior to the expected effective date for the implementation of the Israel Accounting Standard Board's Accounting Standard No. 16 on 1.1.07), investment property is stated at cost, net of accumulated depreciation (the "cost model"). Under International GAAP (IAS 40), investment property can be stated either according to the cost model or at fair value, with changes in fair value being carried to income (the "fair value model").
2. Under current Israeli GAAP, stock options that have an exercise price that is linked to the consumer price index or to a foreign currency exchange rate are presented as part of shareholders' equity and are not revalued to their fair value. Under International GAAP (IAS 32), such stock options are to be presented as liabilities at their fair value, with changes in fair value being carried to income.
3. Under Israeli GAAP, derivatives that serve as exchange rate hedges and interest hedges in respect of loans are not presented as shareholders' equity. Under International GAAP (IAS 39), such derivatives are to be presented at their fair value.
4. Under International GAAP (IAS 12), deferred taxes are to be created for certain assets and liabilities for which, under Israeli GAAP, it is not customary to create deferred taxes.

2. The Group and its Business Environment – Key Events and Changes During the Reporting Period

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 4.3 billion. In addition, Citycon invested NIS 2.1 billion in acquiring and developing properties during the reporting period. The effect of these investments on the operating results will be reflected in full during the remainder of the year and in 2007.

A. Property Activities

1. During the reporting period, the Group acquired 33 income-producing properties, with a total G.L.A. of approximately 275 thousand square meters, and 17 plots of land for future development. The total consideration for these acquisitions totalled NIS 3.6 billion.
2. During the reporting period, the Group invested a total of NIS 0.7 billion in developing new properties and in the redevelopment of existing properties.
3. The total cost of the properties and land as described below, which are being developed or are intended for future development, as well as the properties of Gazit Development and RSC that are being developed, is approximately NIS 1.5 billion. These properties and land did not generate any rental revenue during the reporting period.

As of September 30, 2006, EQY and FCR have properties being developed that include land for the development of 10 properties on an area of approximately 1.3 million square meters, out of their total land reserves that have an area of approximately 2.3 million square meters. In addition, EQY and FCR are engaged in the redevelopment of 19 properties.

The total cost of these properties of EQY and FCR that are being developed or redeveloped totalled NIS 0.7 billion. The cost to complete on these properties is expected to amount to a further NIS 0.4 billion. When completed, the GLA of these properties is expected to increase by approximately 122 thousand square meters.

4. As of the end of the third quarter of 2006, EQY's and FCR's average basic monthly rental revenue was US\$10.49 per square meter. During the third quarter of 2006, EQY and FCR renewed leases on 60 thousand square meters, while increasing the average basic monthly rent on these leases by 5.1% to an average monthly rent of US\$11.04 per square meter, as well as signing new leases on 52 thousand square meters at an average basic monthly rent of US\$11.09 per square meter. During the third quarter of 2006, leases on 33 thousand square meters expired, on which the average monthly rent was US\$10.18 per square meter. The net operating income from the same properties increased by an average of 3.3%, compared to the same period last year.

EQY's and FCR's core properties had an average occupancy rate of 95.3% as of September 30, 2006 (the rate was 93.8% as of September 30, 2005).

5. As of September 30, 2006, RSC's properties had an occupancy rate of 94.9% (the rate was 92.8% as of September 30, 2005).

During the reporting period, RSC acquired 3 additional senior housing communities, consisting of 167 units, for a total investment of US\$18.1 million, and also two plots of land for the construction of additional senior housing communities, which will consist of approximately 450 units, for a total investment of US\$8 million.

In addition, RSC has completed the refinancing of two properties in South Carolina, on which RSC has taken a new, non-recourse loan secured by a mortgage on these properties from a leading institutional provider of mortgages to the senior housing communities sector. The new loan, which is for a 5-year period, is US\$13.5 million. This is close to the amount paid by the Company for the acquisition of these two properties in 2004 and is at the same level of leverage.

6. As of September 30, 2006, Gazit Development's properties had an occupancy rate of 95.8% and yielded an average monthly rental revenue of NIS 83 per square meter. During the third quarter of 2006, Gazit Development renewed leases on 1.9 thousand square meters, while increasing the average monthly rent on these leases by 1.5%, as well as signing new leases on 1.3 thousand square meters at an average monthly rent of NIS 150 per square meter. During the third quarter of 2006, leases on 1.1 thousand square meters expired, with an average monthly rent of NIS 49 per square meter.

At the end of the third quarter of 2006, Gazit Development had a stake in 14 properties in Israel detailed below (data presented in thousands of NIS, except for rental areas):

	Qty.	Cost (*)	Additional investment to complete development	Rental area (square meters)
Income-producing properties	6	612,295	-	60,723
Properties under development	8	403,699	366,643	101,437

(*) The Company's share.

7. In the reporting period, Citycon invested € 387 million (approximately NIS 2.1 billion) in the acquisition of income-producing properties, in increasing its stake in existing shopping centers, and in the redevelopment of income-producing properties.

The net operating income from the same properties increased by 3.7%, compared to the same period last year.

As of September 30, 2006, Citycon's properties had an occupancy rate of 96.7% (the rate was 96.9% as of September 30, 2005).

- B. As to the issuance of Company shares by way of a rights offering for a total consideration of NIS 256 million - see note 3B to the Financial Statements.
- C. As to the public debt financing by the Company by way of a shelf prospectus - see note 3H to the financial statements.
- D. As to the sale of Company shares and Company stock options to institutional and foreign investors, interested parties and the parent company (Gazit Inc.) for a total consideration of NIS 325 million - see note 3A to the financial statements.
- E. As to the closing of ProMed's acquisition of a medical office building, with a multi-storey parking garage, located in the state of New Jersey in the United States – see note 3C to the financial statements.
- F. As to the exercise of warrants for stock of the Company by Clal Insurance, an interested party in the Company – see note 3D to the financial statements.
- G. As to the agreement with Clal Finance Underwriting Ltd. for the receipt of services in relation to capital market activities, , banking and other areas, in consideration for the grant of non-listed stock options – see note 3E to the financial statements.
- H. In January 2006, based on the Company's capabilities and the experience in North America and Europe, its Board of Directors authorized the Company's management to expand the scope of operations in Europe and to study the possibility of entering into Asia. The Board of Directors approved an investment budget of US\$ 1.5 billion over the next 2 years. This investments will be made in accordance with the company's financial profile and generally out of existing financial sources, as well as by raising equity and debt in the Israeli and other financial markets.

Pursuant to the Board of Directors' decision, the expanding of the scope of operations in Europe and the possibility of extending operations into Asia will include the Company's existing areas of activity, mainly shopping centers, as well as senior housing communities and medical office buildings. Within this framework (including through Gazit Development), the Company is currently assessing – in several geographical regions of Europe and Asia – various types of arrangements, including: the acquisition, development and construction of individual

buildings, the acquisition of property portfolios and the acquisition of real estate companies – either by itself or through alliances and joint ventures with appropriate partners.

- I. As to the refinancing of EQY's credit facility – see note 3F to the financial statements.
- J. As to the raising of debt by the Company – see note 3G to the financial statements.
- K. As to the issuance of debentures by EQY – see notes 3I and 3J to the financial statements.
- L. As to the issuance of debentures by FCR – see notes 3K and 3L to the financial statements.
- M. As to the closing of a sale of 29 of EQY's income-producing properties and land in Texas to a joint venture with Investcorp and the sale of two other properties in Texas and the sale of a building that is part of a shopping center in Florida and land for development in Georgia to third parties - see notes 3M and 3V to the financial statements.
- N. As to the issuance of 500 thousand Company stock options (which were exercised into Company shares subsequent to balance sheet date), together with a wholly owned subsidiary's debentures with a nominal value of NIS 50 million, to institutional investors – see note 3O to the financial statements.
- O. As to equity raising by FCR - see note 3P to the financial statements.
- P. As to a rights offerings by Citycon – see note 3Q to the financial statements.
- Q. As to the convertible debentures by Citycon and the Company's participation in this issue - see note 3R to the financial statements.
- R. As to the closing of a sale of a portfolio of commercial properties in Finland by Citycon, resulting in a gross gain of € 5.8 million (approximately NIS 32 million), see section 3B "Equity in earnings of affiliates" below.
- S. As to a final assessment agreement with the income tax authorities for the tax years 2001-2003 - see note 3W to the financial statements.
- T. The balance of long-term investments as of September 30, 2006 includes an investment in 2.8 million stock of The Mills Corporation, a company listed on the NYSE ("MLS"), constituting 4.9% of that company's common share capital. MLS is engaged in the acquisition and management of regional shopping and entertainment centers in the U.S.A. (and until recently, also in Canada and Europe). MLS owns and has interests in 42 regional shopping and entertainment centers, with a G.L.A. of approximately 3.8 million square meters. The original investment as of September 30, 2006 was NIS 420 million. Resulting from an examination and analysis of the fair value of the investment, based on publicly accessible data published by MLS, the Company decided during the second quarter of 2006 to reduce the book value of its investment in MLS by NIS 98.8 million. As a result of this write down, this investment is included in the accounts as of September 30, 2006 at a book value of NIS 321 million. As of September 30, 2006 and as of the signing date of the financial statements, the market value of

this investment is NIS 201 million and NIS 229 million (based on the exchange rate at September 30, 2006), respectively. Subsequent to the balance sheet date, the Company increased its investment in MLS common stock by a further NIS 194 million, bringing its aggregate holding in MLS common stock to 9.7% (5.5 million common stock). Taking into account these acquisitions, the Company's total investment in MLS to the signing date of the financial statements amounts to NIS 515 million, representing an average cost of US\$ 21.8 per common share.

On September 29, 2006, the Company made a written, non-binding offer to MLS' Management and Board of Directors, subject to certain conditions, to recapitalize MLS with a monetary investment of up to US\$ 1.2 billion in MLS, in return for the issuance of Series B common stock (convertible into MLS common stock) at a price of US\$ 24.5 per share, with the intention of obtaining control of MLS.

During October and November 2006, the Company and its Advisors held meetings and corresponded with MLS concerning the Company's non-binding recapitalization proposal referred to above; however, as of the signing date of the financial statements, no formal or direct response had been received from MLS to this proposal.

On November 8, 2006, the Company filed a lawsuit in Delaware, U.S.A. in which it seeks to compel MLS to convene an Annual General Meeting, at which the Company plans to propose that certain of its nominees be elected to the Board of Directors of MLS. In a letter dated November 8, 2006, the Company put MLS on notice that it should not enter into any agreement as to a change of control transaction, or the sale of significant assets, before it has filed its financials and joint venture agreements and given all potential bidders, including the Company, fourteen days to review such materials and submit firm offers. The Company will continue to assess the value of its investment, as previously stated, taking into account the market value of MLS' common stock and based on additional information published by MLS in the future.

On November 10, 2006, MLS announced that it intends to convene its Annual Shareholders' Meeting on December 21, 2006, but that - under certain circumstances - it might postpone the holding of the annual general meeting until the last week of December. MLS stated that the announced agenda of said meeting includes the election of approximately a third of MLS' directors and the ratification of the appointment of its auditors.

- U. As of September 30, 2006, EQY classifies its properties in Louisiana as "assets held for sale" that are presented among current assets. EQY owns 14 income-producing properties with a G.L.A. of approximately 150 thousand square meters in Louisiana. The average basic annual rent from the above properties totaled US\$ 11 million and their depreciated cost as of September 30, 2006 totaled NIS 415 million.

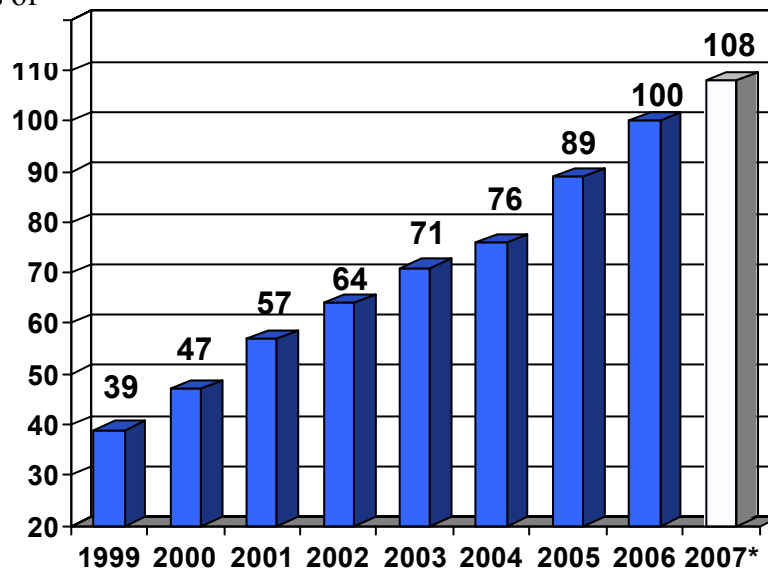
V. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be declared in 2007 will not be less than NIS 0.27 per share per quarter (NIS 1.08 per share on an annualized basis).

The aforesaid is subject to the existence of adequate amounts of distributable income at the relevant dates, and is subject to the provisions of any law relating to dividend distributions and to decisions that the Company is permitted to take, including the appropriation of its income for other purposes and the revision of this policy.

The Company's dividend growth in the years 1999-2007 is shown in the graph below:

Agurot (hundredths of a NIS) per share



* Forecast

3. A. Results of Operations

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands (other than net earnings per share data)				
Property rental revenue	1,904,647	1,592,711	617,825	561,744	2,195,821
Property rental operating expenses	645,155	514,816	205,413	184,701	717,762
Property rental depreciation	340,203	257,672	113,996	89,044	360,800
Gross profit	919,289	820,223	298,416	287,999	1,117,259
General and administrative expenses	185,585	(*) 132,242	65,207	(*) 47,291	189,102
Operating income	733,704	687,981	233,209	240,708	928,157
Financing expenses, net	575,209	447,438	196,342	159,431	622,058
	158,495	240,543	36,867	81,277	306,099
Other income, net	338,606	114,946	13,629	55,554	122,353
Income before taxes on income	497,101	355,489	50,496	136,831	428,452
Taxes on income	58,368	68,485	9,775	22,989	74,545
Income after taxes on income	438,733	287,004	40,721	113,842	353,907
Equity in earnings of affiliates	209,739	49,933	56,940	23,020	129,960
Minority interest in earnings of subsidiaries	(431,637)	(*) (225,066)	(47,578)	(*) (87,408)	(295,965)
Net income before cumulative effect	216,835	111,871	50,083	49,454	187,902
Cumulative effect as of the beginning of the period of change in accounting principle (see section 1H above)	-	(56,525)	-	-	(56,525)
Net income	216,835	55,346	50,083	49,454	131,377
<u>Net earnings per share of NIS 1 par value (in reported NIS)</u>					
<u>Fully diluted earnings per share</u>					
Before cumulative effect	1.97	1.24	0.39	0.53	2.03
Cumulative effect as of the beginning of the period of change in accounting principle	-	(0.64)	-	-	(0.62)
Net earnings	1.97	0.60	0.39	0.53	1.41
Number of shares used in computing fully diluted earnings per share	105,330	87,549	109,348	88,611	90,599

(*) Reclassified in accordance with Israel Accounting Standard No. 24 – see note 2B(4) to the financial statements.

B. Analysis of Results of Operations for the Third Quarter of 2006

Property rental revenue

The 10% increase compared with the same period last year is due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, development properties coming on-line and also the increase in the average rent per square meter received on the Group's properties.

Property operating expenses

The increase in rental operating expenses, compared to the same period last year, results from the increased number of properties, as referred to above. Rental property operating expenses, as a percentage of property rental revenue, rose to 33.2% from 32.8% for the same period last year. This is mainly due to the relatively greater share in these items that now relates to FCR and RSC, whose operating expenses represent a higher percentage of revenue than EQY's.

Property depreciation

The increase in rental property depreciation expenses, compared to the same period last year, results from the increased number of properties, as referred to above, as well as from the allocation of certain property costs to the term of the tenants' leases, which is shorter than the lifespan of the properties. Depreciation expenses as a percentage of property rental revenue rose to 18.5% from 15.9% for the same period last year.

Gross profit

Gross profit totaled NIS 298 million (48.3% of property rental revenue); this compares to NIS 288 million (51.3% of property rental revenue) for the same period last year – an increase of 4%. The reduction in gross profit as a percentage of property rental revenue is attributable to the increase in rental property depreciation as a percentage of property rental revenue, and FCR's and RSC's relatively greater share in this item, as explained above.

General and administrative expenses

General and administrative expenses as a percentage of total revenues totaled 9.5%, compared to 7.4% in the same period last year. The higher percentage is mainly due to the increase in EQY's administrative expenses that include a non-recurring charge relating to the evaluation of transactions that did not ultimately take place and also expenses relating to changes in its senior management.

Financing expenses, net

The change in financing expenses results from the following factors:

1. An increase in the Group's loans from an average balance of NIS 12.5 billion in the third quarter of 2005 to an average balance of NIS 15.1 billion in the third quarter of 2006. Interest expenses for the quarter reflect an average nominal interest rate of approximately 6.3% per annum on the Group's indebtedness.
2. The financing expenses are net of income of NIS 21.1 million from investments in marketable securities, compared to NIS 29.8 million received in the same period last year.

Other income, net

This item consists mainly of gains and losses in respect of capital transactions, such as the dilution of holdings in consolidated subsidiaries and real estate sales, as well as adjustments to the value of long-term investments.

The gain resulting from the dilution of holdings in subsidiaries amounts to a total of NIS 1.8 million, compared to gains totaling NIS 31.5 million in the same period last year.

Additionally, the sale of a building that is part of a shopping center and land for development by EQY produced a gain for the Group of NIS 9 million (the Company's share being NIS 3 million), compared to the gain of NIS 23.4 million (the Company's share being NIS 6.2 million) from the sale of properties in the same period last year.

Equity in earnings of affiliates

The increase in this item is primarily attributable to the Company's equity in the earnings of Citycon totaling NIS 59.9 million, compared to NIS 23 million in the same period last year.

In the third quarter of 2006, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of € 21.6 million (approximately NIS 121 million) in their gross value (the Company's share, net of related taxes, is approximately NIS 35 million). In addition, Citycon sold a portfolio of 75 stores, which are not part of its core activities and which had a G.L.A. of approximately 77 thousand square meters; Citycon received proceeds of € 73 million (approximately NIS 408 million) from this sale and recorded a gross gain of € 5.8 million (approximately NIS 32 million) (the Company's share, net of related taxes, is approximately NIS 9 million).

C. FFO.⁽¹⁾ and FFO. per share

The Company's practice is to publish its FFO. results (which is the net reported income, after neutralizing non-recurring income and expenditure (including capital gains from the sale of properties and the gain from the dilution of its holdings in consolidated subsidiaries) and with the addition of the Company's share of depreciation of rental properties and amortization), and FFO. per share, as is already the accepted practice in those countries in which the Company operates, and in accordance with the position paper issued by the NAREIT – the U.S.-based National Association of Real Estate Investment Trusts.

In addition, beginning in 2006, Israel has adopted a REIT tax regime for companies that are real estate investment trusts, similar to that in effect in various other countries throughout the world. Such companies, under certain conditions, do not pay corporate tax. The Company thus considers that the presentation of FFO. and FFO. per share data, after neutralizing expenses and income in respect of deferred taxes (in other words, tax income and expenses that are not on a cash flows basis) provides a better comparison of the Company's operating results with those of other REIT companies in Israel and overseas.

The Company is of the opinion that FFO. and FFO. per share accurately reflect an additional aspect of the Company's operating results, providing a more appropriate basis for comparing the Company's operating results for a given period to those for previous periods, and for comparing the Company's operating results to those of other property companies.

⁽¹⁾ According to the NAREIT position paper, the FFO (Funds From Operations). index does not represent cash flow from current operations according to accepted accounting principles, nor does it reflect the cash held by a company, or its ability to distribute that cash, and it is not a substitute for the reported net income. Furthermore, the FFO. is not part of the data audited by the Company's independent auditors.

The table below presents the computation of the Company's FFO. and FFO. per share for the periods stated:

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31,
	2006	2005	2006	2005	2005
	Reported NIS in thousands (other than FFO. per share data)				
Net income	216,835	⁽¹⁾111,871	50,083	49,454	⁽¹⁾187,902
Adjustments to net income:					
Depreciation and amortization	⁽²⁾ 257,935	108,201	55,095	38,340	153,685
Gains from dilution in holdings of consolidated subsidiaries	(30,529)	(69,622)	(1,849)	(30,824)	(75,264)
Gains from the sale of properties	(118,918)	(13,348)	-	(6,218)	(13,782)
Losses from discontinued operations	-	12,059	-	-	12,059
Deferred tax expenses	19,217	20,638	3,603	3,890	22,279
Equity in earnings of affiliates ⁽³⁾	(209,739)	(49,933)	(56,940)	(23,020)	(129,960)
Equity in FFO. of affiliates	59,244	32,250	19,867	12,110	50,758
Other adjustments ⁽⁴⁾	11,684	5,147	2,262	2,786	9,075
Total adjustments to net income	(11,106)	45,392	22,038	(2,936)	28,850
FFO.	205,729	157,263	72,121	46,518	216,752
Primary FFO. per share⁽⁵⁾	1.96	1.80	0.66	0.53	2.41
Fully diluted FFO. per share⁽⁵⁾	1.95	1.80	0.66	0.52	2.39
Number of shares used in computing fully diluted earnings per share	105,330	87,549	109,348	88,611	90,599

⁽¹⁾ After neutralizing the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19) (see section 1H above).

⁽²⁾ Includes the adjustment to the value of a long-term investment, see section 2T above.

⁽³⁾ Includes the Company's equity in the revaluation of Citycom's investment in fixed assets to their fair value, in conformity with International Accounting Standard No. 40.

⁽⁴⁾ Expenses that are directly related to the income and expense items adjusted against the net income for the purpose of calculating FFO.

⁽⁵⁾ In conformance with Israel Accounting Standard No. 21, which has been applied for the first time in the first quarter of 2006.

4. Financial Status

Liquidity

The Group has a policy of maintaining a high level of liquidity that enables the pursuit of business opportunities in its areas of operations.

As of September 30, 2006, the liquid assets available to the Group, including short-term investments, totaled NIS 281 million, compared to NIS 351 million as of December 31, 2005. In addition, as of September 30, 2006, the Group had unutilized credit facilities available for immediate drawdown of NIS 2.3 billion, compared to NIS 2.1 billion as of December 31, 2005. Furthermore, as of September 30, 2006, the Group had unpledged assets, which are carried at a cost of NIS 8.6 billion.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown totaling NIS 2.6 billion.

Current Assets

Current assets, as of September 30, 2006, totaled NIS 1.2 billion, compared to NIS 1.9 billion as of December 31, 2005. The reduction in current assets is due to closing the sale of rental properties in Texas, which were held for disposal, that were previously carried at a net cost of NIS 1.3 billion (see section 2M above); this has been eliminated from the classification, leaving only the Louisiana properties held for sale, which are carried at a cost of NIS 0.5 billion.

Investments in Affiliates

Investments in affiliates, totaling NIS 1,336 million as of September 30, 2006, relate primarily to the investment in 64.9 million shares of Citycon and in convertible debentures of Citycon with a nominal value of € 37 million; investments in affiliates as of December 31, 2005 totaling NIS 722 million. During the reporting period, the Company acquired additional Citycon shares, by means of purchases on the stock exchange and through participation in a rights issue and the issuance of convertible debentures made by Citycon, at an overall cost of NIS 455 million.

Long-Term Investments

Long-term investments, as of September 30, 2006, totaled NIS 939 million, compared to NIS 650 million as of December 31, 2005.

The increase in this item is derived primarily from the acquisition of marketable securities in companies with a similar businesses activities and geography of the group. Among the investments included in the balance, as of September 30, 2006, are the investment in 3.7 million shares of DIM (see note 3N to the financial statements) and also the investment in MLS (see section 2T above).

Fixed Assets, Net

Net fixed assets, as of September 30, 2006, totaled NIS 19.5 billion, compared to NIS 17 billion at the end of 2005.

In the reporting period, the Group acquired income-producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 4.3 billion. In addition, the weakening of the U.S. dollar and the Canadian dollar against the Shekel contributed a decrease of NIS 0.8 billion to this item. Depreciation expenses for the reporting period amounted to NIS 340 million.

Current Liabilities

Current liabilities, as of September 30, 2006, totaled NIS 1.4 billion, compared to NIS 1.9 billion at the end of 2005. The balance mainly consists of the line item “credit from banks and other credit granting institutions”, which mainly consist of the current maturities of long-term liabilities in the amount of NIS 0.8 billion, compared to NIS 1.2 billion at the end of 2005.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.3 billion (at the end of 2005 - NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, as of September 30, 2006 totaled NIS 15.1 billion, compared to NIS 12.3 billion at the end of 2005.

The increase in this item derives principally from the issuance of debentures and new loans, intended principally for financing investments in fixed assets and the acquisition of long-term investments.

Shareholders' Equity

The change in shareholders' equity from NIS 1,908 million as of December 31, 2005 to NIS 2,657 million as of September 30, 2006 results mainly from the sale of treasury stock and stock options to institutional investors totaling NIS 375 million, from a rights issuance totaling NIS 256 million, from the exercise of stock options into shares totaling NIS 72 million, from the income for the reporting period totaling NIS 217 million, and from the decrease in the item “other capital surpluses” totaling NIS 91 million. These were partly offset by the dividends of NIS 81 million paid and declared by the Company.

Shareholders' equity per share as of September 30, 2006 totaled NIS 23.1 per share, compared to NIS 19.4 per share as of December 31, 2005. This is after a dividend distribution of NIS 0.75 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 62.9% as of September 30, 2006, compared to 61.5% and 62.8% as of December 31, 2005 and September 30, 2005, respectively.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 51.5% as of September 30, 2006, compared to 52.2% and 53.6% as of December 31, 2005 and September 30, 2005, respectively.

The Company considers that the fair value of its assets exceeds their carrying value in the Company's books, and accordingly, the ratio of debt to total assets more fairly reflects the Group's leverage ratios.

Cash Flows

Cash inflows from operating activities for the reporting period and for the third quarter of 2006 totaled NIS 505 million and NIS 167 million, respectively, compared to NIS 509 million and NIS 183 million, respectively, for the same periods last year.

In addition, in order to fund the Group's activities during the reporting period and during the third quarter of 2006, the Company and its consolidated subsidiaries raised capital totaling NIS 993 million and NIS 287 million, respectively, took long-term loans and issued debentures in a net amount of NIS 2,631 million and NIS 1,190 million, respectively, and sold fixed assets totaling NIS 1,752 million and NIS 58 million, respectively. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which, in the reporting period and in the third quarter, totaled NIS 4,275 million and NIS 1,416 million, respectively, for further investments in affiliates, listed shares and debentures and long-term investments, in an aggregate net amount of NIS 940 million and NIS 108 million, respectively, and for the buyback by EQY of its own shares in an amount of NIS 289 million and NIS 64 million, respectively.

5. Donations

The Company customarily makes donations to charities and community welfare and education projects.

The Company makes donations to Tel-Aviv University, which has established and operates an institute focusing on research and studies of all manner of real estate related topics (The Chaim Katzman – Gazit-Globe Real Estate Institute). In this connection, the Company has pledged to make an annual donation of US\$ 150 thousand for a period of seven years.

The Company donates to the “College for All” charity – a not-for-profit organization working to close the gaps in education by means of creating equal opportunities for excellence. This vision is being realized through the provision of learning and other tools to students with ability and motivation, which come from underprivileged neighborhoods. The goal is to encourage such students into academic studies. In this connection, the Company has pledged to provide assistance to a group of students for a period of five years.

In July and August 2006, the Company donated in excess of NIS 1 million to institutes and charities providing humanitarian aid to the population living in northern Israel.

During the reporting period, the Group’s donations amounted to NIS 3,462 thousand.

6. Additional Information and Subsequent Events

- A. From the balance sheet date through the signing date of the financial statements, the Group invested a total of NIS 0.6 billion in acquiring new properties and land for future development.
- B. As to the acquisition of additional shares in MLS and the Company becoming an interested party in MLS as a result thereof, see section 2T above.
- C. In October, bodies belonging to the Bank Hapoalim Ltd. group exercised 500,000 options, which had been allotted to them in April 2006, into Company shares for a consideration of NIS 25 million. As a result of this, the bank has become an interested party in the Company.

7. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company’s market risks are Mr. Dori Segal, the Company’s President, and Mr. Gil Kotler, the Company’s Chief Financial Officer. Since the publication of the Company’s annual report for 2005 on March 20, 2006, there have been no significant changes in the market risks or the way in which they are managed.

Attached as Appendix I is the Company’s primary linkage balance sheet as of September 30, 2006.

November 14, 2006	_____	_____
Date of approval of the Directors’ Report	Chaim Katzman Chairman of the Board of Directors	Dori Segal President and Director

**Appendix I to Board of Directors' Report
on the State of the Company's Affairs**

**Primary Linkage Balance Sheet
as of September 30, 2006**

	Linked to the consumer price index	In unlinked NIS	In US\$ or linked thereto	In C\$ or linked thereto	In euros	Unlinked	Total
	R e p o r t e d N I S i n t h o u s a n d s						
Monetary assets							
Cash and cash equivalents	-	8,108	148,263	19,672	8,817	-	184,860
Short-term investments	-	278	64,104	1,702	-	30,218	96,302
Tenants, accounts receivable and other debit balances	68,480	4,828	119,360	165,013	9,078	47,925	414,684
Long-term investments	4,017	-	1,699	12,868	-	920,185	938,769
Long-term loans and debit balances	2,769	-	82,970	45,255	-	-	130,994
	75,266	13,214	416,396	244,510	17,895	998,328	1,765,609
Non-monetary assets⁽¹⁾	-	1,054,928	8,597,627	10,059,418	1,676,438	205,994	21,594,405
	75,266	1,068,142	9,014,023	10,303,928	1,694,333	1,204,322	23,360,014
Liabilities							
Short-term credit from banks and other credit granting institutions	-	63,565	224	132,011	111	-	195,911
Trade and other payables and other credit balances	4,155	74,813	253,213	292,841	13,813	16,456	655,291
Debentures	1,313,795	-	3,215,620	1,871,504	480,244	-	6,881,163
Convertible debentures redeemable in shares of a consolidated subsidiary	-	-	-	332,246	-	-	332,246
Liabilities to financial institutions and others	83,211	-	3,012,117	4,954,585	287,540	-	8,337,453
Deposits from tenants	1,517	-	42,038	23,039	-	-	66,594
Liabilities for employee rights upon retirement	-	237	-	-	-	-	237
Deferred taxes	-	-	-	-	-	118,990	118,990
	1,402,678	138,615	6,523,212	7,606,226	781,708	135,446	16,587,885
Receipts in respect of conversion options in consolidated subsidiary	-	-	-	10,314	-	-	10,314
Proceeds from issuance of stock options of subsidiaries	-	-	1,974	2,944	-	-	4,918
Minority interests	-	-	-	-	-	4,100,096	4,100,096
Shareholders' equity	-	-	-	-	-	2,656,801	2,656,801
	1,402,678	138,615	6,525,186	7,619,484	781,708	6,892,343	23,360,014

⁽¹⁾ Mainly fixed assets, net.

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2006

UNAUDITED

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The Board of Directors
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements
for the nine and three months ended September 30, 2006

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe Ltd. as of September 30, 2006, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the nine and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 47.7% of total consolidated assets as of September 30, 2006, and whose revenues included in consolidation constitute approximately 51% and 54.2% of total consolidated revenues for the nine and three months then ended, respectively.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants, as above, we are not aware of any material modifications that should be made to these statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
November 14, 2006

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	184,860	129,903	282,212
Short-term investments	96,302	91,399	68,691
Tenants	134,942	113,151	110,732
Accounts receivable	279,742	218,745	188,952
Rental properties held for sale	545,988	1,320,518	1,298,902
	<u>1,241,834</u>	<u>1,873,716</u>	<u>1,949,489</u>
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	1,336,149	566,049	721,864
Long-term investments	938,769	332,190	650,056
Long-term loans and receivables	130,994	117,300	116,503
	<u>2,405,912</u>	<u>1,015,539</u>	<u>1,488,423</u>
FIXED ASSETS:			
Cost	20,705,269	17,382,820	18,071,470
Less - accumulated depreciation	1,198,995	937,774	1,026,204
	<u>19,506,274</u>	<u>16,445,046</u>	<u>17,045,266</u>
OTHER ASSETS AND DEFERRED CHARGES, NET			
	<u>205,994</u>	<u>285,819</u>	<u>318,546</u>
	<u><u>23,360,014</u></u>	<u><u>19,620,120</u></u>	<u><u>20,801,724</u></u>

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	786,834	1,688,934	1,291,091
Trade payables	187,911	136,264	207,621
Other accounts payable	439,246	375,336	345,404
Dividend declared	28,134	-	22,610
	<u>1,442,125</u>	<u>2,200,534</u>	<u>1,866,726</u>
LONG-TERM LIABILITIES:			
Debentures	6,811,800	4,144,033	4,176,037
Convertible debentures redeemable into shares of subsidiary	332,246	-	-
Liabilities to financial institutions and others	7,815,893	7,071,861	7,951,227
Tenants' security deposits	66,594	65,772	65,068
Accrued severance pay, net	237	164	164
Deferred taxes, net	118,990	77,787	85,981
	<u>15,145,760</u>	<u>11,359,617</u>	<u>12,278,477</u>
CONVERTIBLE DEBENTURES REDEEMABLE INTO SHARES OF SUBSIDIARY	<u>-</u>	<u>-</u>	<u>351,827</u>
RECEIPTS FROM CONVERSION OPTION IN SUBSIDIARY	<u>10,314</u>	<u>-</u>	<u>-</u>
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN SUBSIDIARIES	<u>4,918</u>	<u>*) 578</u>	<u>*) 1,284</u>
MINORITY INTEREST	<u>4,100,096</u>	<u>*) 4,372,726</u>	<u>*) 4,395,154</u>
SHAREHOLDERS' EQUITY	<u>2,656,801</u>	<u>1,686,665</u>	<u>1,908,256</u>
	<u><u>23,360,014</u></u>	<u><u>19,620,120</u></u>	<u><u>20,801,724</u></u>

*) Restated, see Note 2b(4).

The accompanying notes are an integral part of the interim consolidated financial statements.

November 14, 2006			
Date of approval of the financial statements	Chaim Katzman Chairman of the Board	Dori Segal President and Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	1,904,647	1,592,711	617,825	561,744	2,195,821
Rental property operating expenses	645,155	514,816	205,413	184,701	717,762
Rental property depreciation	340,203	257,672	113,996	89,044	360,800
Gross profit	919,289	820,223	298,416	287,999	1,117,259
General and administrative expenses	185,585	*) 132,242	65,207	*) 47,291	189,102
Operating income	733,704	687,981	233,209	240,708	928,157
Financial expenses, net	575,209	447,438	196,342	159,431	622,058
Other income, net	158,495	240,543	36,867	81,277	306,099
	338,606	114,946	13,629	55,554	122,353
Income before taxes on income	497,101	355,489	50,496	136,831	428,452
Taxes on income	58,368	68,485	9,775	22,989	74,545
Income after taxes on income	438,733	287,004	40,721	113,842	353,907
Equity in earnings of affiliates	209,739	49,933	56,940	23,020	129,960
Minority interest in earnings of subsidiaries	(431,637)	*) (225,066)	(47,578)	*) (87,408)	(295,965)
Income before cumulative effect	216,835	111,871	50,083	49,454	187,902
Cumulative effect as of the beginning of the period of change in accounting principles, net (Note 2b)	-	(56,525)	-	-	(56,525)
Net income	216,835	55,346	50,083	49,454	131,377
Net earnings per share (in reported NIS):					
Basic earnings per share:					
Before cumulative effect	2.06	**) 1.29	0.45	**) 0.57	2.10
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	**) (0.64)	-	-	(0.62)
Net earnings	2.06	0.65	0.45	0.57	1.48
Diluted earnings per share:					
Before cumulative effect	1.97	1.24	0.39	0.53	2.03
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	(0.64)	-	-	(0.62)
Net earnings	1.97	0.60	0.39	0.53	1.41

*) Restated, see Note 2b(4).

**) Restated, see Note 2b(2).

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Nine months ended September 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at the beginning of the period (audited)	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,295	69,862	-	-	-	-	-	-	-	72,157
Issuance of Company shares	6,488	249,955	-	-	-	-	-	-	(194)	256,249
Sale of Company shares held by the Company	-	209,476	-	-	-	-	-	157,731	-	367,207
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(100,754)	-	-	-	-	(100,754)
Revaluation of derivatives in investees to market value	-	-	-	5,887	-	-	-	-	-	5,887
Net income	-	-	-	-	-	216,835	-	-	-	216,835
Cost of share-based payment (1)	-	-	-	3,658	-	-	-	-	-	3,658
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	314	314
Revaluation of loans for purchase of shares	-	-	-	-	-	50	-	-	(50)	-
Dividend paid	-	-	-	-	-	(27,113)	(25,419)	-	-	(52,532)
Dividend declared	-	-	-	-	-	(28,134)	-	-	-	(28,134)
Dividend declared (2)	-	-	-	-	-	(28,859)	28,859	-	-	-
Balance at the end of the period	<u>169,564</u>	<u>1,938,978</u>	<u>7,658</u>	<u>15,444</u>	<u>156,606</u>	<u>395,868</u>	<u>28,859</u>	<u>(45,428)</u>	<u>(10,748)</u>	<u>2,656,801</u>

(1) See Note 2b(4).

(2) See Note 4b.

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Nine months ended September 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at the beginning of the period (audited)	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	11,772	266,057	-	-	-	-	(196,782)	-	81,047
Sale of Company's shares held by the Company	-	71,930	-	-	-	-	107,618	(1,948)	177,600
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	131,777	-	-	-	-	131,777
Revaluation of derivatives in affiliate to market value	-	-	(5,279)	-	-	-	-	-	(5,279)
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	589	589
Cost of share-based payment	-	-	*) 658	-	-	-	-	-	*) 658
Net income	-	-	-	-	*) 55,346	-	-	-	*) 55,346
Dividend paid	-	-	-	-	(40,088)	(17,200)	-	-	(57,288)
Dividend declared	-	-	-	-	(21,563)	21,563	-	-	-
Balance at the end of the period	<u>155,786</u>	<u>1,260,887</u>	<u>(5,645)</u>	<u>256,751</u>	<u>213,268</u>	<u>21,563</u>	<u>(205,168)</u>	<u>(10,777)</u>	<u>1,686,665</u>

*) Restated, see Note 2b(4).

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended September 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at the beginning of the period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851
Issuance of Company shares	6,488	249,955	-	-	-	-	-	-	(194)	256,249
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(101,375)	-	-	-	-	(101,375)
Revaluation of derivatives in investees to market value	-	-	-	(7,268)	-	-	-	-	-	(7,268)
Net income	-	-	-	-	-	50,083	-	-	-	50,083
Cost of share-based payment (1)	-	-	-	1,166	-	-	-	-	-	1,166
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	229	229
Revaluation of loans for purchase of shares	-	-	-	-	-	(10)	-	-	10	-
Dividend paid	-	-	-	-	-	27,113	(27,113)	-	-	-
Dividend declared	-	-	-	-	-	(28,134)	-	-	-	(28,134)
Dividend declared (2)	-	-	-	-	-	(28,859)	28,859	-	-	-
Balance at the end of the period	<u>169,564</u>	<u>1,938,978</u>	<u>7,658</u>	<u>15,444</u>	<u>156,606</u>	<u>395,868</u>	<u>28,859</u>	<u>(45,428)</u>	<u>(10,748)</u>	<u>2,656,801</u>

(1) See Note 2b(4).

(2) See Note 4b.

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended September 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at the beginning of the period	146,394	973,079	*) (10,549)	183,838	*) 184,062	21,499	(116,004)	(9,189)	*)1,373,130
Exercise of stock options into shares	9,392	215,878	-	-	-	-	(196,782)	-	28,488
Sale of Company's shares held by the Company	-	71,930	-	-	-	-	107,618	(1,775)	177,773
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	72,913	-	-	-	-	72,913
Revaluation of derivatives in affiliate to market value	-	-	4,467	-	-	-	-	-	4,467
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	248	248
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(61)	(61)
Cost of share-based payment	-	-	*) 437	-	-	-	-	-	*) 437
Net income	-	-	-	-	*) 49,454	-	-	-	*) 49,454
Dividend paid	-	-	-	-	1,315	(21,499)	-	-	(20,184)
Dividend declared	-	-	-	-	(21,563)	21,563	-	-	-
Balance at the end of the period	<u>155,786</u>	<u>1,260,887</u>	<u>(5,645)</u>	<u>256,751</u>	<u>213,268</u>	<u>21,563</u>	<u>(205,168)</u>	<u>(10,777)</u>	<u>1,686,665</u>

*) Restated, see Note 2b(4).

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2005 (audited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
Balance at the beginning of the year	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	14,267	330,964	-	-	-	-	(196,782)	-	148,449
Issuance of share capital	2,500	82,500	-	-	-	-	-	-	85,000
Sale of Company shares held by the Company	-	73,321	-	-	-	-	109,627	(1,775)	181,173
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	631	631
Revaluation of loans for purchase of shares	-	-	-	-	256	-	-	(256)	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	132,386	-	-	-	-	132,386
Revaluation of derivatives in affiliate to market value	-	-	5,828	-	-	-	-	-	5,828
Cost of share-based payment	-	-	1,095	-	-	-	-	-	1,095
Net income	-	-	-	-	131,377	-	-	-	131,377
Dividend paid	-	-	-	-	(40,088)	(17,200)	-	-	(57,288)
Dividend declared	-	-	-	-	(22,610)	-	-	-	(22,610)
Dividend declared	-	-	-	-	(25,419)	25,419	-	-	-
Balance at the end of the year	<u>160,781</u>	<u>1,409,685</u>	<u>5,899</u>	<u>257,360</u>	<u>263,089</u>	<u>25,419</u>	<u>(203,159)</u>	<u>(10,818)</u>	<u>1,908,256</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
<u>Cash flows from operating activities:</u>					
Net income	216,835	*) 55,346	50,083	*) 49,454	131,377
Adjustments to reconcile net income to net cash provided by operating activities (a)	288,011	*) 453,770	117,048	*) 133,865	530,044
Net cash provided by operating activities	504,846	509,116	167,131	183,319	661,421
<u>Cash flows from investing activities:</u>					
Investment in newly consolidated companies (b)	(198,077)	58	(177,652)	304	58
Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method (c)	-	87,454	-	87,454	87,454
Investments in fixed assets	(3,763,604)	(2,253,595)	(1,090,701)	(831,119)	(2,854,007)
Repayment (grant) of loans to partners in property under development, net	15,254	(1,467)	(255)	(10,550)	11,589
Proceeds from sale of fixed assets	1,751,722	195,420	58,142	75,577	195,419
Long-term loans granted	(40,187)	(19,419)	(37,594)	(19,419)	(19,532)
Repayment of long-term loans granted	26,096	1,175	329	1,075	1,175
Short-term investments, net	(29,617)	(8,858)	167,796	12,334	44,524
Purchase of marketable securities and long-term investments	(742,637)	(362,526)	(172,374)	(158,625)	(808,614)
Investment in investees	(464,838)	(42,850)	(296,956)	(42,850)	(104,844)
Proceeds from realization of long-term investments	297,288	285,852	192,580	238,512	401,331
Withdrawal of long-term deposits	1,611	-	48	-	7,058
Net cash used in investing activities	(3,146,989)	(2,118,756)	(1,356,637)	(647,307)	(3,038,389)

*) Restated, see Note 2b(4).

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
<u>Cash flows from financing activities:</u>					
Repayment of loans granted for the purchase of Company and subsidiary's shares	314	589	229	248	631
Issuance of share capital, net	256,249	-	256,249	-	85,000
Issuance of stock options	7,658	-	-	-	-
Exercise of stock options into shares	72,157	81,047	-	28,488	148,449
Sale of Company shares held by the Company	367,207	177,600	-	177,600	181,173
Issuance of shares to minorities in subsidiaries, net	289,354	217,509	32,620	42,725	246,686
Dividend paid	(75,142)	(57,288)	(27,113)	(20,184)	(57,288)
Dividend paid to minorities in subsidiary	(488,392)	(279,128)	(97,935)	(93,443)	(376,607)
Receipt of long-term loans	1,848,160	1,756,456	166,032	910,997	2,281,265
Repayment of long-term loans	(1,957,344)	(1,467,404)	(707,225)	(484,098)	(1,976,536)
Repayment of long-term credit lines from banks, net	(191,554)	(573,162)	(37,511)	(759,686)	(345,343)
Redemption and early redemption of debentures	(681,011)	(18,436)	(328,551)	(3,647)	(18,199)
Sale of Company's debentures by subsidiaries	300,622	137,672	-	126,636	277,551
Short-term bank credit, net	42,290	(42,892)	28,359	(4,118)	47,575
Issuance of debentures	3,045,710	1,743,815	1,986,692	573,681	2,095,650
Purchase of subsidiary's shares by subsidiary	(289,132)	-	(63,697)	-	-
Increase (decrease) in tenants' security deposits, net	-	(634)	-	151	(785)
Net cash provided by financing activities	2,547,146	1,675,744	1,208,149	495,350	2,589,222
Effect of exchange rate differences from cash balances of foreign autonomous entities	(2,355)	10,992	(1,305)	(1,114)	17,151
Increase (decrease) in cash and cash equivalents	(97,352)	77,096	17,338	30,248	229,405
Cash and cash equivalents at beginning of period	282,212	52,807	167,522	99,655	52,807
Cash and cash equivalents at end of period	184,860	129,903	184,860	129,903	282,212

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>					
Income and expenses not involving cash flows:					
Minority interest in earnings of subsidiaries	431,637	*) 225,066	47,578	*) 87,408	295,965
Gain from realization of investment in jointly controlled entity	-	(1,199)	-	(1,199)	(1,199)
Equity in earnings of affiliates, net of dividend received	(165,999)	(15,067)	(56,079)	(23,020)	(95,102)
Depreciation	309,864	247,868	103,789	83,026	350,100
Write-down of long-term investments	98,840	-	-	-	-
Gain from realization and revaluation of marketable securities, net	(24,638)	(50,426)	(15,680)	(25,903)	(54,895)
Deferred taxes, net	33,621	88,044	13,847	8,997	89,153
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(1,174)
Adjustment differences on monetary assets and long-term monetary liabilities, net	47,700	23,319	19,662	8,415	24,044
Amortization of other assets and deferred charges	41,569	13,388	15,372	4,438	14,954
Capital gain	(383,574)	(45,485)	(8,215)	(23,376)	(46,795)
Increase in accrued severance pay, net	73	119	73	-	119
Gain from issuance to third party, net	(31,004)	(67,256)	(1,813)	(31,528)	(71,253)
Cost of share-based payment	7,406	*) 1,236	2,901	*) 914	2,379
Bad debts	720	-	(92)	-	-
Changes in asset and liability items:					
Increase in tenants and accounts receivable	(164,363)	(88,757)	(105,789)	(29,439)	(121,620)
Increase in trade payables and other accounts payable	81,009	112,361	99,305	69,253	135,683
Increase in tenants' security deposits, net	5,150	10,559	2,189	5,879	9,685
	<u>288,011</u>	<u>453,770</u>	<u>117,048</u>	<u>133,865</u>	<u>530,044</u>

*) Restated, see Note 2b(4).

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
(b) <u>Investment in newly consolidated companies:</u>					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(1,898)	(8,746)	-	(8,567)	(8,746)
Current liabilities	90,679	35,566	65,985	4,067	35,566
	88,781	26,820	65,985	(4,500)	26,820
Fixed assets, long-term investments and loans (mainly real estate)	(511,056)	(223,888)	(325,477)	(177,639)	(223,888)
Other assets	-	(1,237)	-	-	(1,237)
Long-term liabilities	224,198	198,782	81,840	182,443	198,782
Minority interest	-	(419)	-	-	(419)
	(286,858)	(26,762)	(243,637)	4,804	(26,762)
	(198,077)	58	(177,652)	304	58
(c) <u>Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method:</u>					
The jointly controlled entity's assets and liabilities at date of realization:					
Current assets	-	1,926	-	1,926	1,926
Current liabilities	-	(38,868)	-	(38,868)	(38,868)
	-	(36,942)	-	(36,942)	(36,942)
Fixed assets, long-term investments and loans (mainly real estate)	-	348,273	-	348,273	348,273
Other assets	-	22,500	-	22,500	22,500
Long-term liabilities	-	(251,536)	-	(251,536)	(251,536)
Minority interest	-	3,960	-	3,960	3,960
	-	123,197	-	123,197	123,197
Capital gain from realization of investment in jointly controlled entity	-	1,199	-	1,199	1,199
	-	87,454	-	87,454	87,454

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
(d) <u>Significant non-cash operations:</u>					
Conversion of convertible debentures into subsidiary's shares	-	492,782	-	232,182	492,782
Dividend declared	28,134	-	28,134	-	22,610
Sale of treasury shares to employees against long-term loans	-	-	-	-	1,775

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2006, and for the nine and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2005 and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as described in b below.

- b. Initial adoption of new Accounting Standards:
1. Initial adoption of Accounting Standard No. 20 (Revised) regarding the accounting for goodwill and intangible assets upon acquisition of investee:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee which is not a subsidiary, including a company under joint control. In accordance with the provisions. The Standard is being applied prospectively and comparative data have not been restated.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: allocating the excess of cost of an investment in an investee also to the investee's identifiable intangible assets; distinguishing between intangible assets with a finite useful life and intangible assets with an indefinite useful life; immediate recognition as a gain in the statement of income of the balance of negative goodwill arising upon acquisition and remaining after deduction from the cost of the investee's intangible assets and non-monetary assets; the discontinuance of the systematic amortization of goodwill and intangible assets with an indefinite useful life; assessment for impairment of goodwill in respect of a subsidiary or jointly controlled entity and of intangible assets with an indefinite useful life on an annual basis, or more frequently, if there are indications of impairment; distinguishing between goodwill relating to the acquisition of a subsidiary and a jointly controlled entity as opposed to that of an affiliate in respect of the assessment of impairment, such that impairment of goodwill for an affiliate is evaluated in the context of the assessment of impairment of the investment as a whole. Impairment is accounted for in accordance with Accounting Standard No. 15, "Impairment of Assets".

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard:

The Company discontinued the systematic amortization of goodwill which amounted to approximately NIS 2,599 thousand, NIS 786 thousand and NIS 3,403 thousand for the nine and three months ended September 30, 2005 and for the year ended December 31, 2005, respectively (the effect on the Company's net income for the nine and three months ended September 30, 2005 and for the year ended December 31, 2005 amounted to approximately NIS 1,061 thousand, NIS 261 thousand and NIS 1,328 thousand, respectively). The balance of goodwill as of January 1, 2006 is NIS 42,652 thousand.

2. Initial adoption of Accounting Standard No. 21 regarding earnings per share:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 21, "Earnings per Share" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

According to the Standard, earnings per share are computed based on the number of Ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are only included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share. In addition, convertible securities which are converted during the period, are included in diluted earnings per share up to the date of conversion and are included in basic earnings per share from that date. Pursuant to the Standard, options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares minus the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also included adjustments to earnings.

The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard, the comparative data of earnings per share relating to previous periods have been restated as follows:

	Nine months ended September 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS		
Basic earnings per share: Before cumulative effect	1.32	(0.03)	1.29
Cumulative effect as of the beginning of the period of change in accounting principles, net	(0.61)	(0.03)	(0.64)
	<u>0.71</u>	<u>(0.06)</u>	<u>0.65</u>
	Three months ended September 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS		
Basic earnings per share: Before cumulative effect	0.56	0.01	0.57
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	-	-
	<u>0.56</u>	<u>0.01</u>	<u>0.57</u>

The comparative data of diluted earnings per share for previous periods are presented for the first time.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	<u>Year ended December 31, 2005 (audited) *)</u>		
	<u>As previously reported</u>	<u>The change Reported NIS</u>	<u>As presented in these financial statements</u>
Basic earnings per share:			
Before cumulative effect	2.11	(0.01)	2.10
Cumulative effect as of the beginning of the period of change in accounting principles, net	<u>(0.59)</u>	<u>(0.03)</u>	<u>(0.62)</u>
	<u>1.52</u>	<u>(0.04)</u>	<u>1.48</u>

*) Data of earnings per share for the year ended December 31, 2005 were restated in the context of the publication of the financial statements for the three months ended March 31, 2006.

3. Initial adoption of Accounting Standard No. 22 regarding financial instruments: disclosure and presentation:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes principles for the presentation and disclosure of financial instruments and supersedes Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated or reclassified.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: transaction costs in respect of a financial liability are deducted from the liability and are taken into account in the computation of the effective interest rate; upon the issuance of several types of financial instruments in a single unit (shares, debentures and warrants), the components of the unit, including related transaction costs, are classified separately upon initial recognition into the various financial instruments based on their fair value; compound financial instruments that include both a liability and an equity component (such as convertible debentures) are bifurcated between the equity component (receipts from conversion option) and the liability component and each component is classified separately (net of transaction costs attributed to the different components).

The Standard supersedes the provisions of Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which in certain circumstances, an investor was required to record a provision for a loss resulting from a decrease in its holdings in an investee, due to the probable conversion of convertible instruments issued by the investee ("loss provision").

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard:

- a) On January 1, 2006, the Company recorded the equity component of debentures in a subsidiary as "receipts from conversion option in subsidiary" thereby increasing said item and reducing convertible debentures redeemable into shares of subsidiary in the amount of approximately NIS 10,608 thousand.
- b) Transaction costs in respect of a financial liability are deducted from the liability and taken into account in the computation of the effective interest rate. The balance of issuance expenses, amounting to NIS 80 million as of December 31, 2005, in respect of financial liabilities, was offset on January 1, 2006, from the balance of the financial liabilities as presented in the balance sheet as of December 31, 2005.

4. Initial adoption of Accounting Standard No. 24 regarding share-based payment:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 24, "Share-Based Payment" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other requirements for three types of share-based transactions:

- a) Equity-settled share-based payment transactions;
- b) Cash-settled share-based payment transactions;
- c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

For equity-settled share-based payment transactions, the Standard is applicable to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006. The Standard is also applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, comparative data in the financial statements for 2005 are to be restated in order to reflect the expense relating to the aforementioned grants.

The Standard applies to all transactions in which a share-based payment is made in respect of purchase of goods or services, including transactions with employees or other parties that must be settled using the Company's equity instruments or in cash. Concurrently with the recording of an expense in the statement of income, shareholders' equity is increased when the share-based payment transaction is settled in equity instruments, or a liability is recorded when the transaction is settled in cash.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard:

- a) The Company recorded for the nine and three months ended September 30, 2006, an expense in the statement of income of approximately NIS 5,391 thousand and NIS 1,965 thousand, respectively, and a corresponding increase in shareholders' equity (capital reserves) in the amount of approximately NIS 3,658 thousand and NIS 1,166 thousand, respectively, and an increase in minority interest and receipts from issuance of stock options in subsidiary of approximately NIS 1,733 thousand and NIS 799 thousand, respectively in respect of options to employees and directors in the Company and subsidiaries.
- b) The Company restated its financial statements for the year ended December 31, 2005, in order to retroactively reflect the effect of the change in accounting treatment of share-based payment transactions with employees or other parties, to be settled using the Company's and subsidiaries' equity instruments, and which had been granted subsequent to March 15, 2005 and had not vested as of December 31, 2005 or which had been granted prior to March 15, 2005 but whose terms were subsequently modified.

Following is the effect of the changes on the financial statements:

Balance sheets:

	<u>September 30, 2005 (unaudited)</u>		
	<u>As previously reported</u>	<u>The change</u>	<u>As presented in these financial statements</u>
	<u>Reported NIS in thousands</u>		
Capital reserves	<u>(6,303)</u>	<u>658</u>	<u>(5,645)</u>
Shareholders' equity	<u>1,686,887</u>	<u>(222)</u>	<u>1,686,665</u>
Retained earnings	<u>214,148</u>	<u>(880)</u>	<u>213,268</u>
Minority interest	<u>4,373,082</u>	<u>(356)</u>	<u>4,372,726</u>
Proceeds from issuance of stock options in subsidiary	<u>-</u>	<u>578</u>	<u>578</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	December 31, 2005 (audited): *)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Capital reserves	<u>4,804</u>	<u>1,095</u>	<u>5,899</u>
Shareholders' equity	<u>1,908,788</u>	<u>(532)</u>	<u>1,908,256</u>
Retained earnings	<u>264,716</u>	<u>(1,627)</u>	<u>263,089</u>
Minority interest	<u>4,395,906</u>	<u>(752)</u>	<u>4,395,154</u>
Proceeds from issuance of stock options in subsidiary	<u>-</u>	<u>1,284</u>	<u>1,284</u>
Statements of income:			
	Nine months ended September 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	<u>131,006</u>	<u>1,236</u>	<u>132,242</u>
Income before taxes on income	<u>356,725</u>	<u>(1,236)</u>	<u>355,489</u>
Minority interest in earnings of subsidiaries	<u>(225,422)</u>	<u>356</u>	<u>(225,066)</u>
Net income	<u>56,226</u>	<u>(880)</u>	<u>55,346</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Three months ended September 30, 2005		
	(unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	<u>46,377</u>	<u>914</u>	<u>47,291</u>
Income before taxes on income	<u>137,745</u>	<u>(914)</u>	<u>136,831</u>
Minority interest in earnings of subsidiaries	<u>(87,695)</u>	<u>287</u>	<u>(87,408)</u>
Net income	<u>50,081</u>	<u>(627)</u>	<u>49,454</u>
	Year ended December 31, 2005 (audited) *)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	<u>186,723</u>	<u>2,379</u>	<u>189,102</u>
Income before taxes on income	<u>430,831</u>	<u>(2,379)</u>	<u>428,452</u>
Minority interest in earnings of subsidiaries	<u>(296,717)</u>	<u>752</u>	<u>(295,965)</u>
Net income	<u>133,004</u>	<u>(1,627)</u>	<u>131,377</u>

*) Data of the effect of said Standard for the year ended December 31, 2005 were restated in the context of the publication of the financial statements for the three months ended March 31, 2006.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Initial adoption of Accounting Standard No. 25 regarding revenues:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 25, "Revenues" ("the Standard") of the Israel Accounting Standards Board. The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the required accounting treatment (principles of recognition, measurement, presentation and disclosure) regarding these three types of transactions.

The initial adoption of the Standard had no material effect on the interim consolidated financial statements.

- c. Disclosure of the effect of new Accounting Standards in the period prior to their adoption:

1. Accounting Standard No. 29 regarding adoption of International Financial Reporting Standards (IFRS):

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

Below is a qualitative disclosure of the principal differences, which might have an effect on the Company's financial statements, upon the transition from the generally accepted accounting principles ("GAAP") in Israel - to which the Company is currently subject - and International GAAP,:

- a) Under current Israeli GAAP (prior to the expected effective date for the implementation of the Israel Accounting Standard Board's Accounting Standard No. 16 on 1.1.07), investment property is stated at cost, net of accumulated depreciation (the "cost model"). Under International GAAP (IAS 40), investment property can be stated either according to the cost model or at fair value, with changes in fair value being carried to income (the "fair value model").
- b) Under current Israeli GAAP, stock options that have an exercise price that is linked to the consumer price index or to a foreign currency exchange rate are presented as part of shareholders' equity and are not revalued to their fair value. Under International GAAP (IAS 32), such stock options are to be presented as liabilities at their fair value, with changes in fair value being carried to income.
- c) Under Israeli GAAP, derivatives that serve as exchange rate hedges and interest hedges in respect of loans are not presented as shareholders' equity. Under International GAAP (IAS 39), such derivatives are to be presented at their fair value.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- d) Under International GAAP (IAS 12), deferred taxes are to be created for certain assets and liabilities for which, under Israeli GAAP, it is not customary to create deferred taxes.

The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements.

2. Accounting Standard No. 27 - Fixed Assets:

In September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2007 ("the effective date") or thereafter.

The initial recognition of fixed assets will be based on the cost of purchase. After the initial recognition, the Standard enables choosing between the cost method or the revaluation method as the accounting policy and to apply it consistently with regard to a group of fixed asset items of a similar nature and usage.

According to the revaluation method, fixed assets are to be presented at an amount revalued based on the fair value upon the date of revaluation less accumulated depreciation and subsequent impairment losses. The revaluation of fixed assets will be carried to capital reserve in shareholders' equity with the deduction of the tax effect. This capital reserve will be carried directly to retained earnings once the asset has been disposed of or during the use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

According to the Standard, each component of fixed assets with a different life and cost that is material in relation to total cost of fixed assets is to be depreciated separately. The asset's depreciation shall be based on its useful life for the Company, which will be tested at year end, and will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale as is, which the Company has an obligation to sell and in respect of which the sale is expected to be completed within a year from classification. Furthermore, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, prospectively rather than by way of cumulative effect, as customary prior to the effective date.

The cost of fixed assets obtained in a swap transaction will be measured at fair value unless the transaction is commercially immaterial or if the fair value of the fixed assets obtained or delivered cannot be reliably measured. The Standard actually replaces the restriction for the measurement of similar assets at fair value with a restriction regarding commercially immaterial transactions. A transaction is commercially material if it leads to a change in amount, timing and risk of future cash flows from the asset.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The transitional provisions of the Standard require retrospective adoption, including the restatement of comparative data, except in the following case:

A company that elects on the effective date to implement the reevaluation method for a group of fixed assets will carry the difference between the revalued amount in the books and its cost at the effective date to capital reserve in shareholders' equity at the same date.

The Company is evaluating the effects of the adoption of the new Standard on its financial statements, including the possible impact regarding the transition to reevaluation, but is presently unable to estimate such effect on its financial statements.

- d. The following are details of exchange rates of the U.S. dollar, the Canadian dollar and the Euro and the Israeli CPI:

As of:	Israeli CPI Points *)	Representative exchange rate of		
		US \$	CD \$	€
September 30, 2006	186.5	4.302	3.8689	5.4552
September 30, 2005	184.2	4.598	3.9377	5.5275
December 31, 2005	185.1	4.603	3.9642	5.4465
Change during the period:				
September 30, 2006 (9 months)	0.8	(6.5)	(2.40)	0.16
September 30, 2006 (3 months)	(0.7)	(3.1)	(3.27)	(3.34)
September 30, 2005 (9 months)	1.9	6.7	10.03	(5.9)
September 30, 2005 (3 months)	1.4	0.5	6.11	-
December 2005 (12 months)	2.4	6.8	10.77	(7.3)

*) The index on an average basis of 1993 = 100.

NOTE 3:- ADDITIONAL INFORMATION

- a. In May 2006, the Company sold about 3.6 million dormant shares to institutional and foreign entities and to related parties for a total consideration of approximately NIS 175 million (simultaneously with the allocation of about 1.2 million non-marketable stock options at no consideration).

The Company also sold about 3.1 million dormant shares to the parent company for a total consideration of approximately NIS 150 million (simultaneously with the allocation of about one million non-marketable stock options at no consideration).

Each stock option mentioned in this item is exercisable into one share for an exercise increment of NIS 54 linked to the Israeli CPI and subject to adjustments. The exercise period of the stock options expires on May 8, 2007.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

In addition, in March 2006, the Company sold 1,100 thousand dormant shares to institutional entities for a total consideration of approximately NIS 49 million.

- b. In September 2006, the Company issued rights to purchase Company's shares to shareholders in the Company, according to a shelf prospectus published on May 25, 2006. About 99.7% of the right units which were offered were used and, accordingly, about 6.5 million Ordinary shares of the Company were issued in consideration of approximately NIS 256 million.
- c. In February 2006, ProMed completed the acquisition of a medical office building including a multi-story parking lot situated in the district hospital campus in the State of New Jersey, U.S.

The built area includes a gross 24,000 sq.m. for lease and about 1,700 roofed parking spaces and is leased in full to the hospital. The acquisition was carried out by way of purchasing the property's leasehold rights until 2041.

The overall cost of acquisition amounted to approximately US\$ 88 million (approximately NIS 415 million) whereby about 30% was financed by the Company's independent sources and the remainder was financed by assigning the loan that had been granted in respect of the built area from the sellers to the Company.

In November 2005, the date on which the Company entered into the contingent agreement for the acquisition of said property, the Company announced that its Board had approved, in addition to the purchase of the medical office building as above, an initial budget of US\$ 300 million (approximately NIS 1.3 billion) for additional investments in the area and that it intends to examine the acquisition and/or establishment of additional properties in the U.S.

- d. In January 2006, entities controlled by Clal Insurance Holdings Ltd. ("Clal Insurance") exercised the remaining non-marketable stock options which had been allocated to them in February 2005 into about 2.3 million Company's shares for a total consideration of approximately NIS 72 million.
- e. In January 2006, the Company entered into an agreement with Clal Finances Underwriters Ltd., controlled by Clal Insurance, for a period of one year, for receiving consulting services in matters of capital raising, marketing securities and other banking and investment-related services in consideration of the allocation of 300 thousand non-marketable stock options, convertible into the Company's shares.
- f. In January 2006, EQY signed a new agreement for receiving a non-secured credit line amounting to US\$ 275 million (approximately NIS 1.3 billion) from a consortium of banks and financial institutions managed by Wells Fargo Bank. The credit line is for a period of three years and renews from time to time. The credit line replaces EQY's former credit line.
- g. In January through April 2006, a wholly-owned subsidiary of the Company sold about NIS 106 million par value of debentures (series B) in consideration of approximately NIS 113 million and about NIS 180 million par value of debentures (series C) in consideration of approximately NIS 190.5 million. The Company also allocated by way of series extension NIS 45 million par value of debentures (series A) in consideration of approximately NIS 44.2 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

- h. In July 2006, the Company issued about NIS 352 million par value of debentures (series C) to the public, according to a shelf prospectus published on May 25, 2006, as above, offered by way of series extension, in consideration of approximately NIS 372 million.

In September 2006, the Company also issued about NIS 300 million par value of debentures (series D) to the public, according to the shelf prospectus, as above, in consideration of approximately NIS 300 million. The debentures (series D) are linked to the Israeli CPI, bear annual interest at the rate of 5.1% and will be redeemed in 2019 (30%), 2020 (30%) and 2021 (40%). The debentures (series D) were ranked as AA and as Aa2 by the rating companies Maalot and Midroog, respectively.

- i. In March 2006, EQY issued a series of debentures at a scope of US\$ 125 million (approximately NIS 588 million). The debentures are non-secured, bear fixed interest of 6% and are redeemable in one installment in September 2016. The debentures were ranked as Baa3 (Positive outlook) by Moody's and as -BBB (Positive outlook) by Standard & Poor's.
- j. In August 2006, EQY issued a series of debentures at a scope of US\$ 125 million (approximately NIS 545 million). The debentures are non-secured, are redeemable in one installment in January 2017 and bear fixed interest at a rate of 6.25%. The debentures were ranked as Baa3 (Positive outlook) by Moody's and as -BBB (Positive outlook) by Standard & Poor's.
- k. In March 2006, FCR issued debentures (series B) at a scope of CD\$ 100 million (approximately NIS 400 million). The debentures are non-secured and bear annual interest at a rate of 5.25%. The debentures will be redeemed on March 30, 2011. The debentures were ranked as BBB by the rating agency DBRS and as from September 2006 as Baa3 by Moody's.
- l. In August 2006, FCR issued debentures at a scope of CD\$ 100 million (approximately NIS 400 million). The debentures are non-secured, bear annual interest at a rate of 5.49% and are redeemable in one installment in December 2011.

In addition, in September 2006, FCR issued debentures at a scope of CD \$ 100 million (approximately NIS 400 million). The debentures are non-secured, bear annual interest at a rate of 5.34% and are redeemable in one installment in April 2013.

The two debenture series were ranked as -BBB by the rating agency DBRS and as Baa3 by Moody's starting from September 2006.

- m. In April 2006, EQY closed an agreement whereby it established a joint venture with Investcorp, an international investment fund which manages a US\$ 2.3 billion portfolio. The joint venture shall purchase EQY's rights in 29 out of 32 properties it owns in the State of Texas with an area of some 260 thousand sq.m. Investcorp holds 80% of the rights to the joint venture and EQY holds 20% and also manages the joint venture for the next 15 years. The value of said properties was set at US\$ 388 million (approximately NIS 1.8 billion). The net proceeds EQY received in respect of said transaction amount to approximately US\$ 310 million (approximately NIS 1.4 billion) and it recorded a gain of approximately US\$ 92 million (approximately NIS 416 million). The Company's share in the pre-tax gain is approximately NIS 119 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

On June 30, 2006, following the completion of the transaction, EQY distributed a special dividend to its shareholders in the amount of US\$ 1.00 (approximately NIS 4.4) per share.

- n. As of September 30, 2006, EQY holds, directly and indirectly, about 3.7 million shares of DIM, a publicly-traded company incorporated in the Netherlands whose shares are traded on the Euronext Amsterdam Stock Exchange (the total investment in DIM constitutes less than 2% of the Company's total consolidated balance sheet). DIM owns 20 commercial centers in the southeast of the U.S. with an area of some 260 thousand sq.m. EQY also committed to purchase another 45 thousand DIM shares in consideration of US\$ 941 thousand (approximately NIS 4 million) in September 2007. As of September 30, 2006, the investment in DIM is presented at cost since EQY has no significant influence over DIM due to its inability to influence DIM's financial and operating policies.

As of September 30, 2006, the cost of EQY's investment in DIM, amounting to approximately NIS 332 thousand, is higher than its market value by about 10%. According to EQY's management estimate, based on tests and analyses, the decrease in the value of the investment does not reflect its fair value and accordingly, in the opinion of EQY's management, it is of a temporary nature.

- o. In April 2006, the Company entered into agreements whereby it will allocate, at no consideration, a total of 500 thousand non-marketable stock options to institutional entities of the Bank Hapoalim Ltd. group. Each stock option, as above, will be exercisable into one Ordinary share of the Company by March 31, 2008. Stock options which are exercised by March 31, 2007 will bear an exercise increment of NIS 50.5, linked to the Israeli CPI, and subsequent to that date will bear an exercise increment of NIS 54.5, linked to the Israeli CPI. As for exercise of stock options, as above, subsequent to the balance sheet date, see Note 4a.

Simultaneously with the closing of the option agreement, as above, an American wholly-owned subsidiary of the Company entered into another agreement with the optionees whereby it will allocate to them non-convertible debentures with an aggregate scope of NIS 50 million par value in consideration of their par value. The debentures bear annual interest of 4.57% paid semi-annually and the principal payments will be made in equal portions in each of the years 2013 through 2015. The principal and interest are linked to the Israeli CPI. The Company has provided a full guarantee for the subsidiary's debenture obligations.

- p. In April 2006, FCR issued one million Ordinary shares for CD\$ 25.75 (approximately NIS 99.5) per share for a total consideration of approximately CD\$ 26 million (approximately NIS 105 million), and, further, the underwriters exercised an option for the purchase of an additional 135,000 shares for the issuance price. Following said allocation, the Company recorded a capital gain of approximately NIS 26 million.
- q. In April 2006, CITYCON issued about 27 million shares by way of issuance of rights for a total consideration of approximately € 75 million (approximately NIS 425 million) (about 99.4% of the shareholders responded to the issuance of rights). The Company acquired about 10 million shares in the context of the issuance for an investment of approximately € 27.9 million (approximately NIS 158 million).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

- r. In July 2006, CITYCON issued convertible debentures at a scope of € 110 million (approximately NIS 616 million). The debentures bear interest at a rate of 4.5% and will be redeemed in August 2013. The debentures are convertible into shares of CITYCON at a conversion price of € 4.3432 per share. CITYCON is entitled to repay the debenture principal and the interest accrued up to the repayment date in cash, under certain conditions.

The Company has acquired approximately 37 million par value of said debentures in the context of this issuance in consideration of approximately € 37 million (approximately NIS 208 million).

- s. The balance of long-term investments as of September 30, 2006 includes an investment in 2.8 million stock of The Mills Corporation, a company listed on the NYSE ("MLS"), constituting 4.9% of that company's common share capital. MLS is engaged in the acquisition and management of regional shopping and entertainment centers in the U.S.A. (and until recently, also in Canada and Europe). MLS owns and has interests in 42 regional shopping and entertainment centers, with a G.L.A. of approximately 3.8 million square meters. The original investment as of September 30, 2006 was NIS 420 million. Resulting from an examination and analysis of the fair value of the investment, based on publicly accessible data published by MLS, the Company decided during the second quarter of 2006 to reduce the book value of its investment in MLS by NIS 98.8 million. As a result of this write down, this investment is included in the accounts as of September 30, 2006 at a book value of NIS 321 million. As of September 30, 2006 and as of the signing date of the financial statements, the market value of this investment is NIS 201 million and NIS 229 million (based on the exchange rate at September 30, 2006), respectively. Subsequent to the balance sheet date, the Company increased its investment in MLS common stock by a further NIS 194 million, bringing its aggregate holding in MLS common stock to 9.7% (5.5 million common stock). Taking into account these acquisitions, the Company's total investment in MLS to the signing date of the financial statements amounts to NIS 515 million, representing an average cost of US\$ 21.8 per common share.

On September 29, 2006, the Company made a written, non-binding offer to MLS' Management and Board of Directors, subject to certain conditions, to recapitalize MLS with a monetary investment of up to US\$ 1.2 billion in MLS, in return for the issuance of Series B common stock (convertible into MLS common stock) at a price of US\$ 24.5 per share, with the intention of obtaining control of MLS.

During October and November 2006, the Company and its Advisors held meetings and corresponded with MLS concerning the Company's non-binding recapitalization proposal referred to above; however, as of the signing date of the financial statements, no formal or direct response had been received from MLS to this proposal.

On November 8, 2006, the Company filed a lawsuit in Delaware, U.S.A. in which it seeks to compel MLS to convene an Annual General Meeting, at which the Company plans to propose that certain of its nominees be elected to the Board of Directors of MLS. In a letter dated November 8, 2006, the Company put MLS on notice that it should not enter into any agreement as to a change of control transaction, or the sale of significant assets, before it has

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

filed its financials and joint venture agreements and given all potential bidders, including the Company, fourteen days to review such materials and submit firm offers. The Company will continue to assess the value of its investment, as previously stated, taking into account the market value of MLS' common stock and based on additional information published by MLS in the future.

On November 10, 2006, MLS announced that it intends to convene its Annual Shareholders' Meeting on December 21, 2006, but that - under certain circumstances - it might postpone the holding of the annual general meeting until the last week of December. MLS stated that the announced agenda of said meeting includes the election of approximately a third of MLS' directors and the ratification of the appointment of its auditors.

- t. In the context of entering into investments in acquisitions, management and development of commercial centers in Israel and examination of investment opportunities in other countries and regions, in May 2006, the Company signed a series of agreements with Mr. Ronen Ashkenazi and a company under his control ("the Ashkenazi company") whereby the Company and the Ashkenazi company will hold Gazit Development at rates of 85% and 15%, respectively. In addition, the Ashkenazi company was allocated about 1.3 million stock options, exercisable for a period of ten years into about 1.3 million shares of Gazit Development for a price per share identical to the original investment price, such that after the exercise of the stock options, the Ashkenazi company's holdings in Gazit Development will increase to about 25%.

The Company has undertaken to invest approximately US\$ 85 million (approximately NIS 385 million) against placing shareholders' loans to Gazit Development (subordinate to loans from third parties). A management agreement was also signed between Gazit Development and the Ashkenazi company whereby Mr. Ronen Ahkenazi will provide management services to Gazit Development for a period of five years.

The Board of Gazit Development will include between three to five members to be determined by the Company and the Ashkenazi company will be entitled to nominate one member. Certain decisions of the general meeting of Gazit Development's shareholders and Board will be passed by a special majority of 86% of voters.

- u. In April 2006, the VAT Authorities dismissed the Company's principal claims in its objection to the VAT assessments received for 2003 and 2004 and for part of 2002 and 2005. Notwithstanding the above, the Company's claims regarding technical errors committed in determining the amount of the assessments were accepted. As a result, the assessment deduction limit was written down to approximately NIS 3.5 million. The Company appealed the above decision of the VAT Authorities.

The Company, based, among other things, on the opinion of its legal counsel, believes that it has arguments to support its position that the assessments, their calculation and reasoning do not coincide with the Company's nature of operation and, consequently, provide no grounds for limiting the Company's assessment deduction. Accordingly, a provision was not recorded in the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

- v. In May 2006, EQY sold two properties in Texas to third parties in consideration of approximately US\$ 15.3 million (approximately NIS 71 million). Following the above sale, EQY recorded a gain of approximately US\$ 6.7 million (approximately NIS 31 million). The Company's share in the pre-tax gain is approximately NIS 7.5 million.

In addition, during the third quarter of 2006, EQY sold a building that is part of a commercial center in Florida and land for development in Georgia to third parties in consideration of approximately US\$ 9.2 million (approximately NIS 40 million). Following the above sale, EQY recorded a gain of approximately US\$ 2.6 million (approximately NIS 11 million). The Company's share in the pre-tax gain is approximately NIS 3 million.

- w. In August 2006, the Company and the Income Tax Authorities signed a final assessment agreement for the tax years 2001 through 2003 ("the assessment"). According to the assessment agreement, financial expenses of NIS 5 million were restated in the accounts and deducted from the Company's declared loss for 2002 and from the Company's accumulated loss at the end of the tax year 2002. These expenses are considered as a loss to be offset against gains from realization of investments beginning the tax year 2004 and thereafter. The Company's carryforward tax loss from 2003 and for future years will be placed at approximately NIS 20.6 million. The Company also became liable to tax of NIS 2.6 million on capital gain outside Israel which derived from the activity of a foreign related company. For tax purposes, this capital gain will be added to the cost of the Company's investment.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a. In October 2006, institutional entities of the Bank Hapoalim Ltd. group exercised the non-marketable stock options which had been allocated to them in April 2006 into about 500 thousand Company shares for a total consideration of approximately NIS 25 million.
- b. In November 2006, the Company declared a dividend in the amount of NIS 0.25 per share, to be paid in January 2007. The record date is December 18, 2006.

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

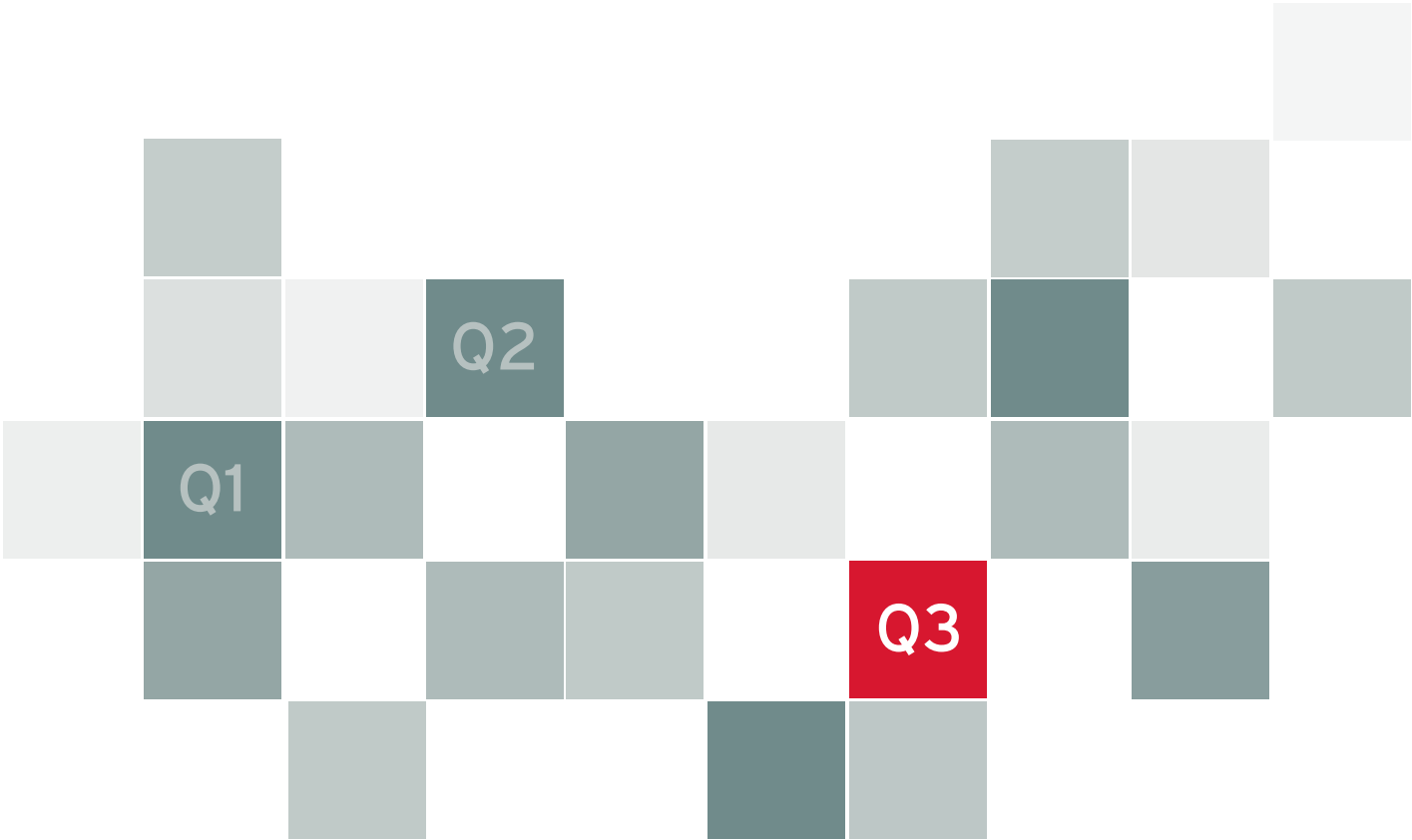
	Nine months ended September 30, 2006 (unaudited)				Total - consolidated
	U.S.	Canada	Israel	Other	
	Reported NIS in thousands				
Rental income	907,559	949,233	35,454	12,401	1,904,647
Segment results	468,013	430,500	15,303	5,473	919,289

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS (Cont.)

	Nine months ended September 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	<u>867,831</u>	<u>703,838</u>	<u>21,042</u>	<u>1,592,711</u>
Segment results	<u>486,917</u>	<u>330,694</u>	<u>2,612</u>	<u>820,223</u>
	Three months ended September 30, 2006 (unaudited)			
	U.S.	Canada	Israel	Other
	Reported NIS in thousands			
Rental income	<u>276,409</u>	<u>319,436</u>	<u>14,089</u>	<u>7,891</u>
Segment results	<u>142,019</u>	<u>147,421</u>	<u>5,553</u>	<u>3,423</u>
	Three months ended September 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	<u>291,095</u>	<u>264,925</u>	<u>5,724</u>	<u>561,744</u>
Segment results	<u>158,793</u>	<u>126,935</u>	<u>2,271</u>	<u>287,999</u>
	Year ended December 31, 2005 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	<u>1,184,546</u>	<u>984,454</u>	<u>26,821</u>	<u>2,195,821</u>
Segment results	<u>650,261</u>	<u>461,993</u>	<u>5,005</u>	<u>1,117,259</u>

2006 | Interim Report 1 January-30 September



CITYCON

Citycon's Interim Report 1 January-30 September 2006

Summary

- Turnover increased by 29.9 per cent, to EUR 86.4 million (1-9/2005: EUR 66.5 million).
- Net rental income increased by 25.9 per cent, to EUR 60.6 million (EUR 48.2 million), while that for like-for-like properties grew by 3.7 per cent.
- Profit before taxes amounted to EUR 131.9 million (EUR 33.3 million), including EUR 97.0 million (EUR 16.1 million) in a fair value gains on investment properties. The net fair value gains on investment properties totalled EUR 21.6 million during Q3.
- Earnings per share were EUR 0.64 (EUR 0.20). Earnings per share excluding fair value gains on investment properties, gains on sale of investment properties and other extraordinary items as well as the related tax impact were EUR 0.15 (EUR 0.14)
- The market value of Citycon's property portfolio increased by 57.1 per cent, to EUR 1,404.5 million (EUR 894.2 million).
- Citycon's market capitalisation totalled EUR 690.9 million (EUR 435.6 million) on 30 September 2006.
- Citycon sold 75 non-core commercial properties in Finland. The company booked a gain on sale before taxes of EUR 5.8 million in the third quarter.
- Citycon acquired several shopping centres in Finland and Sweden during the reporting period. The company entered the Lithuanian market in the spring.
- Citycon expanded its capital base by issuing convertible bonds of EUR 110 million and rearranged its financing by agreeing on a new syndicated credit facility of EUR 600 million with an international bank group.

Key figures and ratios

	1-9 2006	1-9 2005	1-12 2005
Turnover, EUR million	86.4	66.5	92.2
Operating profit, EUR million	154.0	58.8	105.2
% of turnover	178.4	88.5	114.1
Profit before taxes, EUR million	131.9	33.3	74.2
Profit for the period, EUR million	100.0	25.0	59.8
Fair market value of investment properties, EUR million	1,404.5	894.2	956.6
Earnings per share (basic), EUR	0.64	0.20	0.47
Earnings per share (diluted), EUR (EPRA EPS)	0.62	0.20	0.46
Earnings per share (basic), excluding the effects of net fair value gains, gains on sale and other extraordinary items, EUR	0.15	0.14	0.23
Net cash from operating activities per share, EUR	0.14	0.18	0.19
Equity per share, EUR (EPRA NAV)	3.21	2.12	2.45
EPRA NNNAV	3.15	2.12	2.45
P/E (price / earnings) ratio	5	13	7
P/E ratio, excluding the effects of changes in fair value, gains on sale and other extraordinary items	21	19	13
Return on equity (ROE), %	29.4	13.9	22.5
Return on investment (ROI), %	17.9	10.6	13.5
Equity ratio, %	36.2	31.3	36.7
Gearing, %	156.9	198.9	156.8
Net rental yield, %	7.5	8.7	8.5
Occupancy rate, %	96.7	96.9	97.2
Personnel at the end of the period	70	52	57

CEO Petri Olkinuora:

'Citycon's strong growth continued. The business operations progressed according to plan and expanded during the reporting period, both in Finland and especially in Sweden.

The disposal of non-core properties during the period will further emphasize the group's strategy of focusing on shopping centres and other large retail units, enabling us to allocate more resources to improve and develop our shopping centres and expand our shopping-centre property portfolio. We will use the income from the disposal to finance growth.

We will continue to pursue growth opportunities by acquiring and developing properties in Finland, Sweden and the Baltic states, and also make investments in upgrading our properties.'

The EPRA Best Practices Policy Recommendations

In January 2006, the European Public Real Estate Association (EPRA), which represents listed European property investment companies, published financial reporting recommendations for these companies. Citycon has applied these recommendations to its financial reporting since its Q2/2006 interim report. These recommendations supplement, not replace IASs/IFRSs. The recommendations are available in their entirety on EPRA's website at www.epra.com.

In conjunction with the adoption of the EPRA recommendations, Citycon group has changed its income statement presentation so that information is presented by function instead of expense type. Thus, the income statement also includes gross and net rental income. Citycon is confident that the adoption of the EPRA recommendations will help investors better evaluate its earning power and will increase the transparency of its investor information

As Citycon applies the fair-value model in the measurement of its investment properties under IAS 40, Citycon's IFRS profit equals EPRA profit. IFRS diluted earnings per share equals EPRA earnings per share. EPRA NAV corresponds to Citycon's reported IFRS-compliant equity attributable to parent company shareholders.

Key Figures in Accordance with EPRA Recommendations

	EUR million			per share (diluted), EUR		
	1-9 2006	1-9 2005	1-12 2005	1-9 2006	1-9 2005	1-12 2005
EPRA NAV	534.9	280.9	356.6	3.21	2.12	2.45
(iv) Fair value gains/losses of financial instruments in the income statement	-	-	-	-	-	-
(iv) The difference between the fair and book value of debt	-11.0	-0.6	0.5	-0.07	0.00	0.00
(iii) Deferred taxes	-	-	-	-	-	-
EPRA NNAV	523.9	280.3	357.1	3.15	2.12	2.45

Citycon's NNAV rose by 46.7 per cent, to EUR 523.9 million during the reporting period. NNAV per share was EUR 3.15.

Business Environment

Demand for retail premises remained good and their occupancy rates high, with sustained growth in the retail business contributing to these favourable market developments. Consumer confidence indicators remained at good levels in Finland and neither changes in interest nor inflation rates have had a significant effect on the market situation.

International property investors continued to show a keen interest in Finnish retail properties, intensifying competition for the acquisition of retail sites.

Property Portfolio in Summary

Citycon engages in the retail-property business throughout the ownership chain including development, ownership, leasing and management of properties. Citycon operates through the following three divisions: Shopping Centres, Supermarkets and Shops, and Property Development.

At the end of the reporting period, the company owned 33 (18) shopping and retail centres and 52 (127) supermarkets and shops.

On 30 September 2006, the market value of the company's property portfolio totalled EUR 1,404.5 million (31 December 2005: EUR 956.6 million), of which shopping and retail centres accounted for 79.6 per cent (66.9 per cent) and supermarkets and shops 20.4 per cent (33.1 per cent). Finland, Sweden, Estonia and Lithuania account for 70.3 per cent, 23.9 per cent, 4.7 per cent and 1.1 per cent of the company's property portfolio, respectively, based on fair values.

The reporting period saw the disposal of 75 non-core properties at a debt-free price of EUR 73.8 million, with the aim of improving the company's opportunities to develop its core business in Finland, Sweden and the Baltic countries.

The sold properties' fair value recognised in the balance sheet of 30 June 2006 totalled EUR 67.9 million. The recognition of the disposal for the third quarter was based on the fact that the risks and rewards related to the properties were transferred to the acquirer already during Q3 although the closing of the transaction took place on 2 October 2006. Bringing in EUR 5.8 million in pre-tax capital gains, the deal is projected to improve Citycon's earnings per share for 2006 by around EUR 0.01 and results by approximately EUR 2.1 million, taking account of capital gains on the sale, transaction costs, loss of net rental income for the fourth quarter and taxes.

All of the sold properties are located in Finland and their combined leasable area is around 77,000 square metres. A list of the sold properties can be found on the company's website. As a result of the deal, Citycon's Supermarkets and Shops portfolio comprises 52 retail properties.

Changes in Fair Value of the Investment Properties

Citycon measures its investment property at fair value, under IAS 40, according to which changes in its fair value are recognised through profit and loss statement. The most recent valuation statement, dated 10 October 2006, on the Citycon property portfolio's September-end status and based on an appraisal by Aberdeen Property Investors Finland Oy, is available on the company's website at www.citycon.fi. More detailed information on this valuation method is available in Citycon's Annual Report 2005, page 14.

During the reporting period, the fair value change of Citycon's property portfolio totalled EUR 97.0 million. The period saw a total value increase of EUR 104.5 million and a total value decrease of EUR 7.5 million.

The average net yield requirement defined by Aberdeen Property Investors Finland Oy for Citycon's property portfolio decreased to 6.9 per cent (on 31 December 2005, the average net yield requirement was 7.6 per cent). This decrease was mainly due to the very active property market.

Lease Portfolio and Occupancy Rate

At the end of the period, Citycon had a total of 3,060 leases concluded with 2,059 lessees, and the occupancy rate for the company's property portfolio stood at 96.7 per cent (96.9 per cent) with a net yield of 7.5 per cent (8.7 per cent).

Reported net rental income increased by 25.9 per cent, to EUR 60.6 million while gross rental income rose by 29.4 per cent, to EUR 83.4 million, due mainly to property investments made during the period. Net rental income for like-for-like properties grew by 3.7 per cent. Like-for-like properties refer to properties held by Citycon throughout the 24-month reference period. Properties under development and expansion as well as lots are excluded from like-for-like properties.

The calculation method for net yield and selection of the like-for-like properties is based on the guidelines issued by the KTI Institute for Real Estate Economics and the Investment Property Databank (IPD).

Lease portfolio summary

	1-9 2006	1-9 2005	1-12 2005
Number of leases started during the period	267	187	298
Total area of leases started, sq.m.	58,478	32,661	51,476
Occupancy rate at end of the period, %	96.7%	96.9%	97.2%
Average length of lease portfolio at the end of the period, year	2.8	3.4	3.2

Shopping Centres

Citycon is the market leader for the Finnish shopping centre business. The company's net rental income from shopping centres improved by 43.3 per cent, to EUR 41.4 million, and that for like-for-like shopping-centre properties rose by 7.5 per cent. Shopping centres accounted for 68.3 per cent of Citycon's total net rental income.

Key figures: Shopping Centres

Lease portfolio summary

	1-9 2006	1-9 2005	1-12 2005
Number of leases started during the period	212	147	233
Total area of leases started, sq.m.	30,852	14,564	29,160
Occupancy rate at end of the period, %	97.0%	97.5%	98.0%
Average length of lease portfolio at the end of the period, year	2.4	2.7	2.6

Financial performance

	1-9 2006	1-9 2005	1-12 2005
Turnover, EUR million	59.8	40.7	57.4
Net fair value gains on investment property, EUR million	75.4	14.3	22.1
Operating profit, EUR million	114.4	42.1	61.2
Gross rental income, EUR million	57.1	38.9	54.5
Net rental income, EUR million	41.4	28.9	41.3
Net rental yield, %	7.2	8.4	8.2
Net rental yield, like-for-like properties, %	7.9	8.3	8.3
Market value of property portfolio, EUR million	1,117.9	598.1	636.7
Capital expenditure, EUR million	386.6	125.7	174.9

Capital expenditure

During the reporting period, Citycon made several major investments in Finland, Sweden and the Baltic countries.

In Finland, the company acquired the Columbus shopping centre in Vuosaari, Helsinki, for EUR 80.1 million. The extension project for Columbus was completed early October increasing the shopping centre's gross leasable area to around 20,000 square metres.

Other major investments in Finland included the Myyrmanni shopping centre in Vantaa becoming wholly owned by Citycon, the acquisition of the Tullintori shopping centre in Tampere and the Valtari shopping centre in Kouvola, the related capital expenditure totalling approximately EUR 45.7 million.

In Sweden, Citycon acquired retail centres in Lindome, Backa, Hindås, Landvetter and Floda in the Greater Gothenburg Area for an approximate total of EUR 25.4 million. In addition, Citycon bought all shares in Stenungs Torg Fastighets AB for around EUR 41.9 million. The acquiree is the majority holder of the StenungsTorg shopping centre located in the Stenungsund municipality north of Gothenburg.

Citycon also bought all shares in BHM Centrumfastigheter AB for EUR 104.5 million in Sweden. The acquiree owns the Jakobsbergs Centrum shopping centre in the municipality of Järfälla, northwest of the Stockholm Metropolitan Area. In August, Citycon announced that it had bought all shares in Liljeholmsplan Fastighets AB, Liljeholmsplan Bostadsfastigheter AB and Liljeholmstorget Development Services AB for about EUR 61.9 million. These acquirees own an around 20,000 square-metre office-cum-commercial building and substantial permitted buildings volumes for the purpose of constructing a new shopping centre in Liljeholmen, Stockholm.

Citycon expanded its operations in the Baltic countries by acquiring the Mandarinas shopping centre in Vilnius, Lithuania, at a debt-free purchase price of approximately EUR 14.6 million.

As a result of the deals for the period, Citycon owns 19 shopping centres in Finland, 12 shopping and retail premises in Sweden and two shopping centres in the Baltic countries.

Supermarkets and Shops

The Supermarket and Shops division specialises in the development, lease and management of supermarket and other retail-outlet properties. During the reporting period, Citycon sold 75 retail properties within the division. After the sale, the division manages 52 properties. The remaining property portfolio is better in line with Citycon's strategic goals. Following the disposal of the properties the company is also able to focus its human resources more efficiently on the commercial development of the existing properties.

The Supermarkets and Shops division's net rental income was 19.2 million, and that for like-for-like supermarket and shop properties rose by 0.4 per cent.

Key figures: Supermarkets and Shops

Lease portfolio summary

	1-9 2006	1-9 2005	1-12 2005
Number of leases started during the period	55	40	65
Total area of leases started, sq.m.	27,626	18,097	22,316
Occupancy rate at end of the period, %	96.5%	95.8%	95.8%
Average length of lease portfolio at the end of the period, year	4.2	4.6	4.2

Financial performance

	1-9 2006	1-9 2005	1-12 2005
Turnover, EUR million	26.6	25.8	34.8
Net fair value gains on investment property, EUR million	21.5	1.8	23.8
Operating profit, EUR million	46.4	21.2	49.6
Gross rental income, EUR million	26.3	25.6	34.5
Net rental income, EUR million	19.2	19.3	25.6
Net rental yield, %	8.3	9.3	9.1
Net rental yield, like-for-like properties, %	8.5	9.5	9.2
Market value of property portfolio, EUR million	286.6	296.1	320.0
Capital expenditure, EUR million	0.7	3.3	3.6

Property Development

The Property Development division's mission is to develop and extend Citycon's existing and new retail sites together with the company's other divisions. The division is also responsible for commissioning the construction of new retail sites. The division's key figures are not reported separately because it has neither property portfolio nor rental income.

Extension and Development Projects

In line with its strategy, Citycon aims to acquire properties with the potential to generate added value for customers, lessees and owners, through extension and development.

The largest-scale ongoing projects in Finland include the extension and refurbishment of the Duo shopping centre in Hervanta, Tampere, and the Lippulaiva shopping centre in Espoo. The extension and refurbishment of the shopping centre Duo advances in the planned schedule, as does the Lippulaiva refurbishment, whereas the extension of Lippulaiva is delayed due to a court appeal made on the plan.

In addition, the company is building a new retail centre in Kaarina, some five kilometres from downtown Turku, the project's value totalling approximately EUR 8.2 million. The refurbishment of the Torikeskus shopping centre in Seinäjoki is valued at around EUR 4 million.

In Sweden, Citycon is extending and refurbishing the Åkersberga shopping centre in the Stockholm Metropolitan Area. This investment project totals about SEK 247 million (around EUR 27 million) and includes modernisation and an extension of 9,000 square metres. The project will be carried out in stages. The first stage will include alterations to the current shopping centre, and the extension project will begin during the first half of 2007. The project will be completed during the spring of 2009.

Following the refurbishment and extension project, Åkersberga Centrum's leasable area will total approximately 26,000 square metres. Åkersberga Centrum AB also owns apartments with a total area of around 12,000 square metres. More apartments will also be built adjacent to the shopping centre, totalling around 5,800 square metres.

Personnel and Administrative Expenses

On 30 September 2006, Citycon Group had a total of 70 (52) employees, 55 (52) of whom worked in Finland, nine in Sweden, five in Estonia and one in Lithuania. Administrative expenses grew to EUR 9.7 million (EUR 5.9 million) including EUR 0.6 million share-based calculatory expenses related to stock options as well as EUR 0.6 million transaction costs related to the disposal of non-core properties. The expenses increased also due to the expansion of the company's operations.

Turnover and Profit

Turnover for the period came to EUR 86.4 million (EUR 66.5 million), of which gross rental income accounted for 96.6 per cent (97.0 per cent).

Operating profit rose to EUR 154.0 million (EUR 58.8 million). Profit before taxes amounted to EUR 131.9 million (EUR 33.3 million) and after taxes to EUR 100.0 million (EUR 25.0 million).

The effect of changes in the property portfolio's fair value, gains on sale of properties and other extraordinary items as well as the related tax impact on the reported profit was EUR 75.8 million (EUR 7.8 million). Taking this into account, the reported profit after taxes is EUR 7.0 million above the 1-9/2005 level. Greater earnings resulted mainly from higher net rental income. Net financial expenses for 1-9/2006 included EUR 0.6 million in one-off expenses (EUR 5.7 million). Earnings per share excluding the changes in fair value, gains on sale and other extraordinary items were EUR 0.15 (EUR 0.14).

Net cash from operating activities per share amounted to EUR 0.14 (EUR 0.18). The reduction is partly due to the fact, that the interest payments in 2005 took mainly place on the fourth quarter whereas during the reporting period and the entire year 2006 they take place more evenly. The arrangement fees for the financing transactions during the reporting period also reduced the cash flow.

Capital Expenditure

Citycon's capital expenditure totalled EUR 387.5 million (EUR 129.1 million), of which property acquisitions, property development and other investments accounted for EUR 364.1 million (EUR 127.5 million) and EUR 23.2 million (EUR 1.6 million) and EUR 0.2 million (EUR 0.0 million), respectively.

The investments during the reporting period were financed mainly through the EUR 75 million rights issue, by issuing convertible bonds of EUR 110 million as well as raising new interest-bearing loans of approximately EUR 200 million.

Balance Sheet and Financial Position

The period-end balance sheet total stood at EUR 1,513.9 million (EUR 911.0 million), of which cash and cash equivalents accounted for EUR 24.9 million (EUR 8.8 million). The Group's financial position remained at a healthy level.

On 30 September 2006, Group liabilities totalled EUR 966.5 million (EUR 627.2 million), short-term liabilities accounting for EUR 141.9 million (EUR 56.5 million).

Reported interest-bearing liabilities increased by EUR 310.9 million to EUR 883.9 million (EUR 573.1 million), and the weighted average interest rate stood at 4.3 per cent (4.8 per cent). The average loan maturity, weighted according to loan principals, was 4.6 years (2.9 years), while the average time to fixing was 3.4 years (2.7 years).

The group's equity ratio was 36.2 per cent (31.3 per cent). Interest cover, or the previous 12 months' profit before interest expenses, taxes, depreciation, fair value gains and extraordinary items relative to net financial expenses, was 2.5. Period-end gearing stood at 156.9 per cent (198.9 per cent). Strong performance and the equity financing transactions carried out during the reporting period led to a lower gearing.

Citycon's period-end interest-bearing liabilities included 79.8 per cent (87.4 per cent) of floating-rate loans, of which 63.4 per cent (69.9 per cent) had been converted into fixed-rate ones, through interest rate swap contracts. Taking into account the interest rate swaps, 70.8 per cent of the total loan portfolio was at fixed interest rate. On 30 September 2006, the nominal value of interest rate swaps totalled EUR 457.3 million (EUR 337.9 million) while the fair value of derivatives came to EUR -8.1 million (EUR -21.5 million). Citycon applies hedge accounting and, thus, the fair value changes of interest rate swaps is recognised in balance sheet under equity.

Net financial expenses totalled EUR 22.2 million (EUR 25.5 million). The financial expenses for the reporting period include extraordinary items of EUR 0.6 million (EUR 5.7 million). The increase in the comparable net financial expenses is mainly due to higher amount of interest-bearing debt.

Capital Market Transactions

During the reporting period, Citycon carried out successfully two capital market transactions: subordinated convertible bonds issue and a rights issue. The transactions strengthen the company's balance sheet as well as support the implementation of the company's growth strategy.

In July, Citycon's Board of Directors decided to offer EUR 110 million worth of subordinated convertible bonds to international institutional investors. The bonds have been quoted on the Helsinki Stock Exchange since 22 August 2006. With a maturity of seven years (the maturity date on 2 August 2013), they carry an annual fixed interest rate of 4.5 per cent and their initial conversion price is EUR 4.3432, the conversion period being from 12 September 2006 until 27 July 2013.

The purpose of issuing these convertible bonds is to finance future investments based on the group's growth strategy, and to improve the company's liquidity. Waiving the shareholders' pre-emptive rights, the issue of the convertible bonds was based on the authorisation given by Citycon's Annual General Meeting on 14 March 2006. The conversion of the convertible bonds may increase the company's share capital by a maximum of EUR 34,191,378.45 and the number of shares by a maximum of 25,326,947 new shares.

In March-April, Citycon raised EUR 75 million by arranging a rights issue. The shareholders were entitled to subscribe for one new share against five shares they held. Consequently, a total of 27,274,949 new shares were subscribed at a subscription price of EUR 2.75 per share, equalling approximately 99.4 per cent of the shares offered.

More detailed information on the convertible bonds and the rights issue can be found in Citycon's stock exchange releases published during the reporting period and available on the company's website at www.citycon.fi.

Debt Financing Arrangements

During the reporting period, the company renegotiated better terms and conditions for its debt financing, prolonged the loan portfolio's average maturity as well as increased the amount of available debt financing. The new debt financing arrangements make it possible to flexibly carry out the strategy-based investments.

In February 2006, Citycon signed a new commercial paper programme worth EUR 100 million, replacing its previous commercial paper programmes valued at EUR 60 million.

In August, Citycon signed a EUR 600 million credit agreement with an international bank group. The company used this loan to refinance its bank loan worth EUR 450 million raised in 2004 and maturing in 2009, and to finance its property acquisitions. This credit facility will lower the company's annual financial expenses, in comparison with the refinanced loan, by around EUR 0.7 million.

Share Capital and Shares

Under the Articles of Association, Citycon's minimum share capital totals EUR 100 million and maximum share capital EUR 500 million, within which limits the company may reduce or increase its share capital without altering its Articles of Association. The company has a single series of shares, with each share entitling its holder to one vote at the shareholders' meeting.

At the beginning of 2006, Citycon had a share capital of EUR 184,115,724.30 and the number of shares totalled 136,382,018. The reporting period saw Citycon increase its share capital through a rights issue and share subscriptions based on stock options by a total of EUR 40,648,830.75. The table below shows the changes in share capital in more detail. The company's period-end registered share capital amounted to EUR 224,764,555.05 and the number of shares totalled 166,492,263, each share bearing a nominal value of EUR 1.35.

Changes in share capital from 1 January to 30 September 2006

Date 2006	Reason	Change, EUR	Change in no. of shares	Share capital, EUR	Number of shares
1 Jan.				184,115,724.30	136,382,018
16 Feb.	Increase (stock options)	1,012,945.50	750,330	185,128,669.80	137,132,348
28 March	Increase (stock options)	20,250.00	15,000	185,148,919.80	137,147,348
18 April	Increase (stock options)	737,572.50	546,350	185,886,492.30	137,693,698
28 April	Increase (rights issue)	36,821,181.15	27,274,949	222,707,673.45	164,968,647
4 May	Increase (stock options)	51,629.40	38,244	222,759,302.85	165,006,891
20 June	Increase (stock options)	22,126.50	16,390	222,781,429.35	165,023,281
27 July	Increase (stock options)	363,734.55	269,433	223,145,163.90	165,292,714
21 Sept.	Increase (stock options)	1,619,391.15	1,199,549	224,764,555.05	166,492,263
30 Sept.				224,764,555.05	166,492,263

In January-September, the number of Citycon shares traded on the Helsinki Stock Exchange totalled 40.2 million (32.0 million) at a total value of EUR 149.8 million (EUR 90.9 million). The highest quotation was EUR 4.23 (EUR 3.50) and the lowest EUR 3.02 (EUR 2.36). The reported volume-weighted average price was EUR 3.73 (EUR 2.84) and the share closed at EUR 4.15 (EUR 3.49). The company's market capitalisation on 30 September 2006 totalled EUR 690.9 million (EUR 435.6 million).

Shares Not Transferred into the Book-entry Securities System

At the end of August, Citycon Oyj sold 6,250 company shares not transferred into the book-entry securities system, for the benefit of their holders. The resulting income, less expenses incurred by the company caused by notifications and sales, was deposited with the State Provincial Office of Southern Finland on 1 September 2006. A holder of the sold shares or another assignee is entitled to earn a share of this income in proportion to his/her shareholding. This amount is EUR 3.52 per share.

In order to receive his/her share of this income, the shareholder or another assignee must present a claim for it and hand over his/her share certificates and any proof of title to a Nordea Bank Finland Plc branch no later than 31 August 2016. This amount will be paid using the income deposited with the State Provincial Office of Southern Finland against the above-mentioned documents.

Board Authorisations

The AGM held in March authorised the Board of Directors to decide to increase share capital through one or several rights issues by offering a maximum of 50,000,000 new shares at a nominal per-share value of 1.35 for subscription by shareholders, i.e. the share capital may increase by a maximum total of EUR 67,500,000. The authorisation does not entitle the Board to waive the shareholders' pre-emptive subscription right. The Board exercised this authorisation in March when it decided on a share issue based on the shareholders' pre-emptive subscription right. Following the share issue, the authorisation entitles the Board to increase the company's share capital by a further EUR 30,678,818.85 at the most, by issuing a maximum of 22,725,051 new shares. The authorisation is valid until 14 March 2007.

In addition, the AGM authorised the Board to decide to issue one or several convertible bonds, issue stock options and increase the company's share capital through one or several share issues, waiving the shareholders' pre-emptive subscription right.

The Board exercised this authorisation in July when it decided to issue subordinated convertible bonds placed with institutional investors. Based on the conversion right of the bond holders, the company's share capital may increase by EUR 34,191,378.45 at the most, through the issue of a maximum of 25,326,947 new shares.

Citycon's stock exchange release, published on 14 March 2006, and Interim Report, published on 27 April 2006, provide more detailed information on other decisions made by the AGM.

Stock Options

Citycon has two stock-option schemes in force, the 1999 A/B/C scheme and the 2004 A/B/C scheme, which form part of the group-wide employee motivation and incentive programme.

Citycon has amended the terms and conditions of its stock option schemes due to the rights issue carried out during the period. The amended terms and conditions took effect on 24 March 2006 and a stock exchange release of the same date provides information on these amendments.

In April, the Board of Directors decided to issue C stock options under the 2004 stock-option scheme, to the Group's employees. The subscription price of these options, determined on the basis of the price and trading volume of Citycon share in April, is EUR 4.62. The subscription price will be reduced by 50 per cent of the amount of annual dividends paid.

In June, the Board of Directors decided to transfer the 2004 stock options to the book-entry securities system and to apply for listing its stock options 2004 A on the Helsinki Stock Exchange from 1 September 2006. The 1999 stock options are also listed on the Helsinki Stock Exchange.

The tables below show the basic terms and conditions, and the number, of Citycon's stock options.

1999 stock options	Number	Subscription ratio, stock option/share	Subscription price per share, EUR	Share period starts	Subscription period ends
1999A	1,800,000	1:1.0927	1.35	1 Sept. 2000	30 Sept. 2007
1999B	1,800,000	1:1.0927	1.35	1 Sept. 2002	30 Sept. 2007
1999C	1,727,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Not distributed	172,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Total	5,500,000				

In accordance with the amended terms and conditions, the 1999 stock options entitle their holders to subscribe for a maximum of 5,820,418 shares, with the result that the company's share capital may increase by a maximum of EUR 7,857,564.30. By the end of the reporting period, holders of the 1999 stock options had subscribed for a total of 4,113,456 shares, increasing the company's share capital by a total of EUR 5,553,165.60.

2004 stock options	Number	Subscription ratio, stock option/share	Subscription price per share, EUR	Share period starts	Subscription period ends
2004A	1,040,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B	1,120,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004C	1,175,000	1:1.0611	4.62	1 Sept. 2008	31 March 2011
2004A, not distributed	260,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B, not distributed	180,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004C, not distributed	125,000	1:1.0611	4.62	1 Sept. 2008	31 March 2011
Total	3,900,000				

In accordance with the amended terms and conditions, the 2004 stock options entitle their holders to subscribe for a maximum of 4,138,290 shares, with the result that the company's share capital may increase by a maximum of EUR 5,586,691.50. No shares have been subscribed under the 2004 stock-option scheme.

Information on the share and stock-option holdings of members of the Board of Directors and the Corporate Management Committee can be found on Citycon's website at www.citycon.fi.

Events after the Period

A total of 74,766 new Citycon shares at a per-share nominal value of EUR 1.35 were subscribed in October, exercising stock options based on the 1999 A/B/C stock-option scheme. The resulting share-capital increase of EUR 100,934.10 will be registered in the Trade Register approximately on 25 October 2006 and the new shares should become available for public trading on 26 October 2006.

The per-share subscription price of the shares subscribed based on the stock options amounted to EUR 1.35 and these shares entitle their holders to a dividend for the financial year 2006. Other shareholder entitlements will take effect as of the date of registration of the share-capital increase. Each share confers one vote.

The unexercised stock options based on Citycon's 1999 stock-option scheme entitle their holders to subscribe for a further 1,632,196 new shares, with the result that the company's share capital may increase by a further 2,203,464,60. The share subscription period will expire on 30 September 2007.

As a result of the increase, Citycon Oyj's registered share capital will be 224,865,489.15 and the total number of shares 166,567,029.

Outlook

In its interim report published on 27 April 2006, Citycon said it expected demand, occupancy rates and rents for its retail premises to remain stable in the Helsinki Metropolitan Area and Finland's major cities, as well as in Sweden and Estonia. This outlook has not changed during the reporting period.

In an increasingly intensified competitive environment, the company continues to seek out opportunities to expand its business in Finland, Scandinavia and the Baltic countries.

Citycon's business is exposed to risks associated, for example, with its lessees, customers, property portfolio, price development, expansion and changes in interest rates. However, due to favourable market prospects and acquisitions and extension projects carried out in 2005 and 2006, Citycon expects growth in business and operating results.

Condensed Consolidated Income Statement, IFRS

EUR MILLION	7-9 2006	7-9 2005	1-9 2006	%	1-9 2005	%	1-12 2005
Gross rental income	30.6	23.2	83.4	96.6	64.5	97.0	89.1
Service charge income	0.7	0.7	2.9	3.4	2.0	3.0	3.1
Turnover	31.3	23.9	86.4	100.0	66.5	100.0	92.2
Property operating expenses	9.5	6.8	25.4	29.4	18.0	27.0	24.7
Other expenses from leasing operations	0.2	0.1	0.4	0.5	0.3	0.5	0.5
Net rental income	21.6	17.0	60.6	70.2	48.2	72.5	67.0
Administrative expenses	3.7	2.0	9.7	11.2	5.9	8.8	8.3
Other operating income and expenses	0.0	0.0	0.3	0.3	0.2	0.3	0.3
Net fair value gains on investment property	21.6	8.3	97.0	112.3	16.1	24.2	45.9
Net gains on sale of investment property	5.8	-	5.8	0.0	0.3	0.0	0.3
Operating profit	45.4	23.3	154.0	178.4	58.8	88.5	105.2
Net financial income and expenses	9.3	7.2	22.2	25.7	25.5	38.4	31.1
Profit before taxes	36.1	16.1	131.9	152.7	33.3	50.2	74.2
Current taxes	-3.4	-2.1	-6.4	-7.4	-2.2	-3.3	-3.5
Change in deferred taxes	-5.4	-2.4	-25.5	-29.6	-6.2	-9.3	-10.8
Profit for the period	27.3	11.7	100.0	115.8	25.0	37.6	59.8
Attributable to							
Parent company shareholders	27.5	11.6	99.9		24.9		59.2
Minority interest	-0.2	0.1	0.0		0.1		0.6
Earnings per share (basic), EUR	0.17	0.09	0.64		0.20		0.47
Earnings per share (diluted), EUR	0.15	0.09	0.62		0.20		0.46

Condensed Consolidated Balance Sheet, IFRS

EUR MILLION	30 Sep. 2006	30 Sep. 2005	31 Dec. 2005
Assets			
Non-current assets			
Investment property	1,404.5	894.2	956.6
Property, plant and equipment	0.8	0.5	0.7
Deferred tax assets	1.4	0.8	-
Other non-current assets	0.3	0.3	0.2
Total non-current assets	1,407.0	895.9	957.6
Current assets			
Trade and other receivables	82.0	6.3	9.9
Cash and cash equivalents	24.9	8.8	15.6
Total current assets	106.9	15.1	25.5
Total assets	1,513.9	911.0	983.1

EUR MILLION	30 Sep. 2006	30 Sep. 2005	31 Dec. 2005
Liabilities and Shareholders' Equity			
Equity attributable to parent company shareholders			
Share capital	224.8	168.5	184.1
Share issue	-	-	1.1
Share premium fund and other reserves	131.1	66.3	85.4
Fair value reserve	-5.4	-15.9	-10.5
Retained earnings	184.4	62.0	96.5
Total equity attributable to parent company shareholders	534.9	280.9	356.6
Minority interest	12.5	2.9	3.6
Total shareholders' equity	547.4	283.7	360.2
Liabilities			
Long-term liabilities	791.9	570.7	542.7
Deferred tax liabilities	32.7	0.0	5.8
Total long-term liabilities	824.6	570.8	548.4
Short-term liabilities	141.9	56.5	74.4
Total liabilities	966.5	627.2	622.9
Total liabilities and shareholders' equity	1,513.9	911.0	983.1

Condensed consolidated statement of changes in shareholders' equity, IFRS

EUR MILLION	Equity attributable to parent company shareholders						Equity attributable to parent company shareholders	Minority interest	Shareholders' equity, total
	Share capital	Share issue	Share premium fund and other reserves	Fair value reserve	Treasury shares	Retained earnings			
Balance at 1 Jan. 2005	156.8	-	41.5	-13.3	-4.7	57.4	237.7	-	237.7
Cash flow hedges				-2.6			-2.6		-2.6
Profit for the period						24.9	24.9	0.1	25.0
Total recognized income and expense for the period				-2.6		24.9	22.3	0.1	22.4
Change in share capital	-5.2		5.2		4.7	-4.7	0.0		0.0
Dividends						-15.7	-15.7		-15.7
Share issue	16.2		19.5				35.7		35.7
Share subscriptions based on stock options	0.7	0.0	0.0				0.8		0.8
Other changes						0.1	0.1	2.8	2.9
Balance at 30 Sep. 2005	168.5	-	66.3	-15.9	-	62.0	280.9	2.9	283.7
Balance at 1 Jan. 2006	184.1	1.1	85.4	-10.5	-	96.5	356.6	3.6	360.2
Cash flow hedges				5.1			5.1		5.1
Profit for the period						99.9	99.9	0.0	100.0
Total recognized income and expense for the period				5.1		99.9	105.1	0.0	105.1
Change in share capital	38.7	-1.1	37.2				74.8		74.8
Dividends			-6.6			-12.6	-19.2		-19.2
Share subscriptions based on stock options	2.0						2.0		2.0
Equity instrument of convertible bond			15.1				15.1		15.1
Other changes						0.6	0.6	8.8	9.4
Balance at 30 Sep. 2006	224.8	-	131.1	-5.4	-	184.4	534.9	12.4	547.4

Condensed Consolidated Cash Flow Statement, IFRS

EUR MILLION	1-9 2006	1-9 2005	1-12 2005
Cash flow from operating activities			
Profit before taxes	131.9	33.3	74.2
Adjustments	-79.8	10.6	-14.1
Cash flow before change in working capital	52.1	43.9	60.1
Change in working capital	-1.1	2.4	1.9
Cash generated from operations	50.9	46.3	62.0
Paid interest and other financial charges	-26.6	-21.6	-32.3
Received interest and other financial income	0.7	0.3	0.4
Taxes paid	-3.6	-3.1	-5.2
Net cash from operating activities	21.4	21.8	24.8
Cash flow from investing activities			
Acquisition of subsidiaries, less cash acquired	-327.9	-82.7	-92.6
Acquisition of investment property	-32.3	-	-
Capital expenditure on investment properties, PP&E and intangible assets	-23.5	-7.3	-7.2
Sale of investment property	0.6	2.8	2.8
Proceeds from sale of other investments	-	1.0	1.0
Net cash used in investing activities	-383.1	-86.2	-96.1
Cash flow from financing activities			
Proceeds from share issue	73.6	38.4	74.4
Proceeds from short-term loans	344.0	99.6	134.6
Repayments of short-term loans	-241.0	-78.5	-108.6
Proceeds from long-term loans	675.3	199.7	199.7
Repayments of long-term loans	-461.8	-178.3	-205.6
Dividends paid	-19.2	-15.7	-15.7
Net cash from/used in financing activities	370.9	65.2	78.9
Net change in cash and cash equivalents	9.3	0.8	7.7
Cash and cash equivalents at period-start	15.6	7.9	7.9
Effects of exchange rate changes	-	-	-
Cash and cash equivalents at period-end	24.9	8.8	15.6

Segment Information

EUR MILLION	7-9 2006	7-9 2005	1-9 2006	1-9 2005	1-12 2005
Turnover					
Shopping Centres	22.5	15.4	59.8	40.7	57.4
Supermarkets and Shops	8.8	8.6	26.6	25.8	34.8
Unallocated	-	-	-	-	-
Total	31.3	23.9	86.4	66.5	92.2
Operating Profit					
Shopping Centres	27.6	20.1	114.4	42.1	61.2
Supermarkets and Shops	20.2	5.0	46.4	21.2	49.6
Unallocated	-2.5	-1.9	-6.7	-4.5	-5.5
Total	45.4	23.3	154.0	58.8	105.2

Key Financial Figures

	1-9 2006	1-9 2005	1-12 2005
Earnings per share (basic), EUR	0.64	0.20	0.47
Earnings per share (diluted), EUR (EPRA EPS)	0.62	0.20	0.46
Equity per share, EUR (EPRA NAV)	3.21	2.12	2.45
Return on equity (ROE), %	29.4	13.9	22.5
Return on investment (ROI), %	17.9	10.6	13.5
Equity ratio, %	36.2	31.3	36.7

Investment property

	30 Sep. 2006	30 Sep. 2005	31 Dec. 2005
At period-start	956.6	738.7	738.7
Additions	417.1	142.9	175.4
Disposals	-67.9	-3.4	-3.4
Net fair value gains	97.0	16.1	45.9
Exchange differences	1.8	-	-
At period-end	1,404.5	894.2	956.6

Consolidated Contingent Liabilities

EUR MILLION	30 Sep. 2006	30 Sep. 2005	31 Dec. 2005
Mortgages on land and buildings	7.8	7.8	7.8
Bank guarantees	16.4	-	-

Group's Derivative Financial Instruments

EUR MILLION	30 Sep. 2006		30 Sep. 2005		31 Dec. 2005	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Interest rate and foreign exchange derivatives						
Interest rate and currency swaps						
Maturing in 2007	50.0	0.4	78.2	-1.0	78.2	-0.1
Maturing in 2008	40.0	-0.4	50.0	-2.6	50.0	-1.5
Maturing in 2009	86.0	-3.5	126.7	-9.4	125.3	-6.3
Maturing in 2010	83.0	-3.8	83.0	-8.5	83.0	-6.8
Maturing in 2011	40.0	-0.3	-	-	-	-
Maturing in 2012	-	-	-	-	-	-
Maturing in 2013	158.3	-0.4	-	-	-	-
Total	457.3	-8.1	337.9	-21.5	336.5	-14.7

The fair values of derivatives reflect their values if all agreements were closed at the market price at the end of the period.

Derivatives have been used for hedging the loan portfolio.

The fair values include an accrued interest of EUR 0.8 million (EUR 1.7 million) for the period, which has been booked in interest expenses.

The fair values include the positive values of EUR 0.6 million (EUR 0.0 million) and the negative values of EUR 8.7 million (EUR 21.5 million).

Acquisitions in the balance sheet

In August-September 2006 Citycon acquired Stenungs Torg Fastighets AB, BHM Centrumfastigheter AB, Liljeholmsplan Fastighets AB, Liljeholmsplan Bostadsfastigheter AB and Liljeholmstorget Development Services AB. The identifiable assets and liabilities, corresponding the shares acquired, have been recognized at preliminary fair value in the company's balance sheet.

The figures are unaudited.

Accounting Principles

This Interim Report is based on the accounting policies under IFRS presented in the annual financial statements of 31 December 2005.

In the annual financial statements of 31 December 2005, Citycon adopted a procedure of calculating wholly owned, domestic property companies' deferred tax liability on the temporary difference between the debt-free cost of these companies' shares and their fair value.

The figures for the comparison period 1 January-30 September 2005 were changed to comply with the new accounting practice.

Financial Reports in 2006

Citycon will publish its Financial Results for 1 January-31 December 2006 at 12.00 a.m. on 8 February 2007.

Further information for investors is available on Citycon's website, www.citycon.fi.

Helsinki, 19 October 2006

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Report on the general review of Citycon Oyj's interim report for the period 1 January - 30 September 2006

We have generally reviewed the interim report of Citycon Oyj for the period 1 January - 30 September 2006. The Board of Directors and the Managing Director have prepared an interim report in accordance with the Securities Market Act, chapter 2, paragraph 5. Based on our interim review we express at the request of the Board of Directors a report in accordance with the Securities Market Act, chapter 2, paragraph 5.

We conducted our general review in accordance with the International Standard on Auditing applicable to general review engagements. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The general review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our general review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view in accordance with the Securities Market Act regarding the financial position of Citycon Oyj.

Helsinki, 19 October 2006

Ernst & Young Oy
Authorized Public Accountants

Tuija Korpelainen
Authorized Public Accountant